Management Audit

of the

Tax Collector

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the

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June 23, 2005

Supervisor Pete McHugh, Chair
Supervisor James T. Beall, Jr. Member
Board of Supervisors Finance and Government Operations Committee
70 West Hedding Street
San Jose, CA 95110

Dear Supervisors McHugh and Beall:

At the direction of the Board of Supervisors, we have completed a comprehensive management audit of the Tax Collector. This study was conducted pursuant to the authority of the Board of Supervisors under the Board's power of inquiry, as provided in Article III, Section 302 (c) of the County Charter and in conformity with the United States General Accounting Office (GAO) Audit standards. This audit was selected through the Board of Supervisor's management audit program risk assessment analysis that identifies and prioritizes areas of County government for future audits. The Office of the Tax Collector had not been previously audited under the Board of Supervisors' management audit program. Because the Tax Collector has responsibility for collecting approximately $3 billion of property taxes annually, this audit was classified as a high priority audit.

The scope of this audit included a detailed review of the operations of the Tax Collector, which during the 2003-04 fiscal year was organizationally comprised of seven functional units, a budgeted staffing of 71 positions and an annual operating budget of approximately $7.2 million. The purpose of this audit was to identify opportunities for increased efficiency, effectiveness and economy of the functions performed by the Tax Collector, and to ensure that comprehensive policies and procedures exist that meet the Department's legal obligations and Board of Supervisors' expectations and fully protect taxpayer assets.

The audit fieldwork commenced in November 2004. A draft report was issued on April 25, 2005 and exit conferences were concluded on May 16, 2005. This audit report includes nine sections pertaining to the timely deposit of tax payments, collection of unsecured taxes, penalty appeals processing and the development of a new Tax Collection and Apportionment System (TCAS). During the audit, Tax Collector staff and staff of other departments were interviewed, operational reports and related documents were analyzed, and various legal issues were reviewed with County

Counsel. In addition, a survey of Tax Collector functions in comparable California counties was conducted to obtain comparable information on specific areas of operations, and to identify specific policies and procedures utilized by these other jurisdictions.

Based on the audit procedures, surveys, and other audit techniques described above, a total of nine findings with 45 corresponding recommendations and three topics requiring additional review were developed. The Tax Collector and other agencies have indicated partial agreement or agreement with 69 percent of the recommendations. The report also includes six policy recommendations for the Board's consideration. The implementation of the recommendations in the report would improve internal controls related to the collection of taxes, enhance achievement of Tax Collector goals, increase revenues and reduce operating expenditures. We estimate that full implementation of the report's recommendations would result in increased revenues and reduced expenditures of approximately $749,100 annually for the General Fund and an additional $3.3 million for other taxing entities. One-time General Fund savings amounting to approximately $2.6 million were also identified.

Although most of the recommendations contained in this report are directed to the Tax Collector, there are also recommendations related to other departments and agencies, including the Controller-Treasurer, the Office of Budget and Analysis, and the Office of the Assessor. The written response from the Tax Collector begins on page 155 of this report, followed by responses from other departments and agencies. We would like to thank the Tax Collector and staff throughout the organization for their cooperation and assistance with this audit.

Respectfully Submitted,

Roger Mialocq

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Executive Summary

The Santa Clara County Board of Supervisors authorized a management audit of the Tax Collector in FY 2004-05. This audit was conducted in accordance with generally accepted government auditing standards of the United States General Accounting Office. The audit was performed under the Board's power of inquiry specified in Section 302 (c) of the Santa Clara County Charter.

The purpose of the management audit was to examine the operations, management practices and finances of the Tax Collector's Office, and to identify opportunities to increase the Department's efficiency, effectiveness and economy. The scope of the audit was comprehensive, and included a review of all of the functions provided directly by the Department. In addition, the inter-relatedness of County departments occasionally requires audit findings to consider other departments and include recommendations to improve the overall effectiveness of County operations. Some sections thus include recommendations that would require action by departments other than the Tax Collector. These sections were provided to the other departments so that they could provide written responses, which are attached.

This report includes a total of nine findings and 45 corresponding recommendations that encompass major areas of departmental operations. Included are findings related to depositing all property tax payments received by the office, collecting unsecured property taxes, implementing County-wide polices and procedures on fees, updating taxpayer addresses, approving credit card and e-check fees and developing a new Tax Collection and Apportionment System. The report identifies $749,100 in potential ongoing General Fund cost savings and increased revenues, and additional one-time General Fund savings of approximately $2.6 million. The gross cost savings or additional revenue to other taxing entities, based on recommendations in the report, is more than $3.3 million. Taxpayers would also benefit from transaction fee savings of $100,000 annually and improved processes related to address corrections, property tax payments and penalty appeals.

A synopsis of each of the nine findings and related recommendations is provided below.

Section 1: Depositing All Payments Received

In accordance with current practices of the Tax Collector's Office, payments without stubs, partial payments for secured property taxes, tax and penalty payments with an appeal, and other types of payments are not accepted or deposited when received. All of these payments are either returned to the taxpayer or held for an indeterminate period of time, until staff are able to research the tax payments and related tax bills.

A desk audit conducted during a 24-hour period in late February 2005 identified 2,691 checks accounting for approximately $6.6 million of property tax payments that had not been deposited. More than 80 percent of the checks were received by the Tax Collector's Office during the month of February, but checks received at least as far back as August 2004 were found. Furthermore, approximately 57 percent, or $3.7 million, of all checks had been in the office for more than five business days.

The practice of holding checks, rather than depositing them immediately upon receipt, creates an internal control risk that checks could be misplaced, lost or stolen, generates unnecessary workload from handling checks, extends payment processing timelines, and delays revenue deposits, resulting in lost interest income for taxing entities.

By depositing all payments on the day of receipt and establishing a suspense account for payments that cannot be processed immediately, no interest income would be lost, internal control over checks would be improved, and partial payments could be accepted. The immediate deposit of property tax revenues is permitted by the Revenue and Taxation Code, is consistent with the business practices of other major counties and would result in additional interest income of as much as $800,000 annually, including $100,000 for the County General Fund.

Based on these findings, the Tax Collector should:

1.1 Deposit all property tax payments upon receipt, as outlined in Section IV of the Controller-Treasurer's Cash Handling Policy and Procedures. (Priority 1)

1.2 Implement a method of printing duplicate stubs for property tax payments in the office. (Priority 1)

The Controller-Treasurer should:

1.3 Establish a suspense account for depositing property tax payments that cannot be processed immediately. (Priority 1)

The Board of Supervisors should:

1.4 Consider whether to accept partial payments for secured property taxes, as allowed by Revenue and Taxation Code Section 2636 and 2708. (Priority 1)

By depositing all property tax payments upon receipt, taxing entities within Santa Clara County would realize additional interest income of as much as $800,000 annually, including $100,000 for the County General Fund, minus any additional costs to issue refunds. Such a change would also improve internal control over checks and allow the County to accept partial payments. If the Board decided to accept partial payments for secured property taxes, then the collection of taxes from some taxpayers would accelerate, while the amount of penalties and interest earned on delinquent taxes could decrease. Together, these changes would have a positive impact by reducing the County's risk of not collecting all taxes on secured property and improving customer service within the Tax Collector's Office.

Section 2: Tax Collector Trust Funds

The Tax Collector's Office has established 18 separate trust funds to appropriately account for and distribute property taxes, penalties and interest collections. However, the Tax Collector does not review or analyze all of the monies deposited in these trust funds on an on-going, timely basis. As a result, the June 30, 2004 balance in these trust funds totaled approximately $27 million, and included transferable collections deposited as much as five years prior to the end of FY 2003-04.

By regularly reviewing and distributing collections placed in these trust funds on a timely basis, the balance in these trust funds can be minimized. The review and distribution of the existing monies in the trust funds would provide approximately $814,000 as a one-time transfer to the County General Fund. In addition, we estimate there is another $412,000 that will be transferable upon the department's upgrade of its computer system.

Based on these findings, the Board of Supervisors should:

2.1 Appropriate Delinquent Property Tax Improvement Funds for Tax Collector needs based on each year's budget requirements. (Priority 1)

The Tax Collector should:

2.2 Develop computer capability to identify and escheat monies in the Installment Redemption fund. (Priority 1)

2.3 Immediately transfer the FY 1999-00 balance in the Tax Collector's Trust Fund to the General Fund, and promptly transfer the FY 2000-01 balance in July 2005. (Priority 1)

The Controller-Treasurer should:

2.4 Ensure that the appropriate Livestock Head Tax transfers occur timely pursuant to State law. (Priority 1)

Implementation of Recommendation 2.1 would give the Board the flexibility to each year determine whether to use balances in the Delinquent Property Tax Improvement fund to provide for the Tax Collector's general operating expenses or to use the funds for special Tax Collector projects, including technology projects. For instance, the Board could decide to use the funds to offset some of the expenses for the Tax Collection and Apportionment System (TCAS) in the next few years, but redirect future fund balances to cover basic Tax Collector operating expenses in later years, as the County's financial circumstances dictate.

Implementation of Recommendation 2.2 could increase the cost of TCAS by an undetermined amount. However, it would enable the department to escheat balances without carrying out manual estimates.

Implementation of Recommendation 2.3 would provide an estimated $248,600 to the General Fund immediately, and an additional estimated $780,000 this summer, for a total of more than $1 million in additional one-time revenue.

Implementation of Recommendation 2.4 would provide a small transfer to the General Fund immediately, and would ensure that the County complies with the timeliness requirement in State law.

Section 3: Implementation of County-wide Fee Policies and Procedures

The Tax Collector's Office charges 25 separate fees and charges for services that recover approximately $2.3 million annually in departmental costs. However, the Tax Collector's Office does not have written policies and procedures to ensure that all fees are regularly reviewed and increased or decreased in accordance with actual costs, County policies, and State and federal governmental accounting standards. In February 2005, the Internal Audit division found that the Tax Collector does not have accurate cost bases for fees charged, is not maximizing fee amounts and is not charging all possible fees. The Department has agreed to implement recommended improvements.

The 2002 Management Audit of the Controller-Treasurer Department reported County-wide deficiencies regarding departmental management of more than 200 rates and charges for services recovering in excess of $67 million annually. Most of these fees are cost based. The Board of Supervisors approved audit recommendations that a County-wide rates and charges policy be established; that all departments develop internal written procedures for the review of fees at least biennially; that the Controller-Treasurer develop County-wide fee setting procedures for departmental use; and that a report of fees and charges be included at the annual budget workshop. None of these Board directives has been implemented.

As a result, a policy of regular review of all Tax Collector fees does not exist, and the Tax Collector does not have standardized written procedures to perform cost analyses of its services to ensure that County costs are fully recovered. Also, a comprehensive fee schedule does not exist, which has enabled different charges for returned checks within the Finance Agency. The Recorder charges $20 for a returned check, while the Tax Collector charges $85.

By implementing the policy and procedural recommendations described above, the Tax Collector could fully recover its costs for services provided and County-wide fee revenue would increase by as much as $300,000 annually.

Based on these findings, the Controller-Treasurer should:

3.1 Implement Recommendations 6.1, 6.3 and 6.4 of the 2002 Management Audit of the Controller-Treasurer, as shown in Attachment 3.3. (Priority 1)

The Board of Supervisors should:

3.2 Approve a County-wide fee schedule on an annual basis, as prepared by the Office of Budget and Analysis beginning in FY 2006-07. (Priority 2)

Updating of all fees and charges would generate an estimated $2 million in the first year of implementation. The annual value of regularly updating fees is estimated at approximately $300,000. In addition, cost estimates that demonstrate that the revenue from the fees do not exceed the cost of providing the services are a legal requirement of imposing the fee.

Adoption of a County-wide fee policy would result in nominal one-time costs. Various fee policies already in place in other agencies could be modified to suit Santa Clara's needs, and guidelines are available from the Government Finance Officer's Association.

Developing procedures by which departments estimate costs would likely require substantial time from either permanent or temporary staff in the Controller-Treasurer's office. The Controller-Treasurer was unable to estimate the amount of time. However, even if it required one full-time person, the cost would be fully recovered through the resulting increased revenues and through folding the employee's salary into the fee charges.

Each department would incur some costs in preparing initial cost estimates and updating those estimates and associated fees annually. The amount of time needed would vary depending on the extent of documentation already available from the department. It should be noted that, regardless of this cost, departments are required to properly calculate the cost of services in order to ensure that fees are legally set. Once standardized procedures are in place, the work to update calculations would not be onerous.

The Office of Budget and Analysis would incur additional workload in compiling a fee schedule.

Section 4: Collection of Unsecured Property Taxes

As of June 30, 2004, the Tax Collector's Office had not been able to collect at least $140 million in outstanding unsecured property taxes, penalties and interest issued over a 30-year period. Collection efforts have been impeded since many taxpayers may have changed names or moved and cannot be found. Furthermore, the Tax Collector does not utilize an automated collection management system, as does the Department of Revenue, and has not established adequate mechanisms to monitor collector performance and productivity.

The inability to collect unsecured property taxes costs the taxing entities of Santa Clara County millions of dollars annually. In FY 2003-04, more than $11 million in current year taxes and $46 million in prior year taxes remained unpaid by June 30. In addition, penalties and interest on these unpaid taxes amounted to approximately $83 million. The County's portion of the cumulative loss totals more than $90 million.

By implementing an automated collections management system, establishing improved methods to monitor collectors, and obtaining more effective collection tools utilized in other counties, the Tax Collector could significantly increase the collection of unsecured property taxes and related penalties and interest, far in excess of the cost of these improvements. Minimizing unpaid tax to 3.0 percent of the current year roll could result in as much as an additional $3 million annually, including more than $350,000 for the County General Fund.

Based on these findings, the Tax Collector should:

4.1 Implement a case management system, as planned with the Tax Collection and Apportionment System. (Priority 1)

4.2 Establish goals for monitoring the performance and productivity of individual staff and a process to coach collectors who are not meeting their goals. Both the quantity and quality of work should be incorporated into the goals, which could be based on best practices in other departments or counties. (Priority 1)

4.3 Assign a reference number to each taxpayer with unsecured property, bill all assessments for the taxpayer under that number, and redistribute the unsecured collection workload numerically by reference number. (Priority 1)

4.4 Provide staff with electronic access to a skip tracing service and the Department of Motor Vehicles information database to locate taxpayers of delinquent property taxes. (Priority 1)

4.5 Establish a project with the Assessor's Office to determine the cost effectiveness of obtaining Social Security numbers or taxpayer identification numbers from property statements, and compare the project's cost-effectiveness with that of a skip tracing service in order to utilize the State Tax Intercept Program. (Priority 2)

The Board of Supervisors should urge the State Legislature to:

4.6 Amend the Revenue and Taxation Code to require taxpayers to provide federal employer identification numbers, Social Security numbers or taxpayer identification numbers, when applicable, on the property statements used to prepare the unsecured roll. (Priority 1)

4.7 Amend the Revenue and Taxation Code to require that taxes, penalties and interest on secured property that is not recovered at auction be transferred to the unsecured roll and collected from the owner at the time the taxes became delinquent. (Priority 1)

Implementing these recommendations would create minimal one-time and ongoing costs that would be offset by the receipt of significant additional unsecured property tax revenue. The cost to implement a collection management system is already figured into the new Tax Collection and Apportionment System (see Section 8), but the Tax

Collector would need to assign staff to developing goals and a formal coaching process. In addition, providing collectors with access to a skip tracing service could cost an average of $450 per month, depending on how many staff have access and the number of searches conducted, and connecting to the Department of Motor Vehicles information database would require the work of both Tax Collector and Information Services Department staff. Finally, when the Tax Collector obtains Social Security numbers or taxpayer identification numbers from the Assessor in order to utilize the State Tax Intercept Program, the cost can be passed along to the taxpayer whose unsecured property taxes are delinquent. By minimizing unpaid tax to 3.0 percent of the current year roll, the County's taxing entities could earn as much as an additional $3 million annually, including more than $350,000 for the County General Fund.

Section 5: Updating Taxpayer Addresses

Using addresses provided by the Assessor, the Tax Collector issues more than 600,000 tax bills annually. Although the Tax Collector has the legal responsibility to prepare and mail tax bills, the legal responsibility for maintenance of taxpayer addresses rests with the Assessor. The Assessor will not accept change-of-address requests from third parties, including the Tax Collector, without written documentation. Therefore, in some cases, the Tax Collector has a correct address but the Assessor's address remains incorrect.

In Calendar Year 2004, the Tax Collector worked 7,612 secured and supplemental tax bills returned due to incorrect addresses. The Tax Collector collected payment for 6,242 bills, resulting in collections of more than $28.3 million. However, since the Assessor will not accept new addresses from the Tax Collector without written records, some bills will be mailed to incorrect addresses again this year. The proportion of addresses that have been corrected by the Tax Collector but not by the Assessor is undetermined, but could be significant.

In addition, because the Tax Collector does not utilize all available address-location tools, as many as 63 percent of parcels that generate returned mail are receiving three or more mailings. As a result, the process of researching and correcting taxpayer addresses and processing new tax bills is inefficient.

By developing procedures with the Assessor's Office to validate new billing addresses not currently accepted by the Assessor, printing change of address forms on tax bills, utilizing additional address location tools, and modifying State law to enable mailing to the "best known address," the volume of returned tax bills would be reduced and the collection of property taxes would be accelerated.

Based on these findings, the Tax Collector should:

5.1 Print (or stamp) a notice on the back of envelopes used for re-mailing returned bills to inform recipients that they must complete the enclosed change-of-address form or future bills will be misdirected. (Priority 3)

5.2 Provide the returned-mail clerk and others who process returned-mail with a low-cost Internet-based address location service, as discussed in Section 4. (Priority 2).

5.3 Provide a link on the Tax Collector's website to the electronic change-of-address form on the Assessor's website. (Priority 3)

5.4 Batch-process the Assessor's roll through address validation software to correct malformed addresses and provide these corrections to the Assessor. (Priority 2)

During the next re-design of bills, the Tax Collector should:

5.5 Print a change-of-address form on the bill itself and proceed with plans to upgrade the payment processing system to readily enable forwarding of address changes to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)

The Tax Collector should annually:

5.6 Query the Tax Information System to obtain a list of parcel numbers for which the return-mail clerk has generated a new mailing label and for which a payment has been received. Provide this list, along with the last mailing address, to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)

5.7 The list from Recommendation 5.6 above should be compared to the Assessor's annual roll, and the Tax Collector should use the best address available for mailing the annual bill. (Priority 2)

The Board of Supervisors should urge the Assessor to:

5.8 Update the taxpayer's address using information provided from the Tax Collector from implementation of Recommendations 5.2 through 5.6. (Priority 2)

The Board of Supervisors should urge the State Legislature to:

5.9 Modify applicable sections of the Revenue and Taxation Code to explicitly authorize the Tax Collector to mail bills only to addresses the Tax Collector deems most likely to be correct, in keeping with Recommendation 5.7. (Priority 2)

Implementation of the above recommendations would reduce initial mailing to incorrect addresses by an estimated 30 percent. This would reduce the number of late-payment penalty appeals by a similar percentage. These recommendations would significantly reduce multiple mailings of returned bills and associated costs, and generate interest earnings by increasing the timely collection of taxes. These recommendations would also reduce taxpayer frustration.

It is estimated that the initial net budget impact of implementing all of the recommendations would be a small increase in revenue due to increased interest earnings. Over time, the initial implementation costs would decrease somewhat, while the improved interest revenue and savings on mailing and other costs would be ongoing benefits.

Section 6: Cancellation of Late Payment Penalties

Cancellation of late-payment penalties on property taxes is regulated by State law. In FY 2003-04, the Tax Collector processed 807 appeals of late-payment penalties and costs amounting to an estimated $256,000. Sixty percent, or 488 appeals, were granted, resulting in the waiver of an estimated $154,000 of penalties. The Department's written procedures provide insufficient criteria for deciding appeals, do not specify how case histories and appeal decisions will be documented, and make no provisions for ensuring consistency of outcomes. State law requires that taxpayers receive interest on certain refunds and that reports be prepared regarding cancellation of certain penalties, whether appealed or not. These refunds are not made and the reports are not prepared. In addition, adjudicating appeals consumes approximately 20 percent of the Tax Collector's time.

As a result, appeal adjudication procedures, timeliness and decisions are not demonstrably consistent. Penalty appeal decisions are not always fully documented. In addition, because penalty and tax checks are held by the Tax Collector's Office during the appeal process, interest income is lost and the potential theft or loss of checks is an unnecessary internal control risk.

By expanding written policies and procedures, preparing penalty cancellation reports for certain penalties waived, and depositing all checks upon receipt, the penalty cancellation process can be improved, decisions can be demonstrably consistent, and cancellations conducted in compliance with State law. Upon completion of the Tax Collector's new tax collection management computer system, the delegation of this function to lower level management staff to decide most penalty appeals would allow the Tax Collector to devote more time to higher priority management issues. In addition, the Internal Audit Division should periodically sample appeal decisions to ensure consistency of outcomes.

Based on these findings, the Tax Collector should:

6.1 Prepare penalty cancellation reports in compliance with Section 4985.1 of the Revenue and Taxation Code. (Priority 1)

6.2 Fully document all penalty appeal decisions, and delegate the decision making process to lower level staff when possible, with final decisions made by the Tax Collector. (Priority 2)

6.3 Systematically document the facts of the case using standardized sources of information, including a brief case history. (Priority 2)

6.4 Develop a policy governing penalty cancellations and strengthen procedures for the review of appeals. The procedures should define as specifically as possible the criteria upon which outcomes will be determined, in compliance with Section 2610.5 of the Revenue and Taxation Code. (Priority 1)

6.5 Promptly deposit penalty and tax checks consistent with recommendations in Section 1 of this report, and make interest payments as required by Section 5151 of the Revenue and Taxation Code. (Priority 1)

6.6 Ensure that refunds of penalties include refunds of interest earnings when the interest amount is $10 or more in compliance with Section 5151(a) of the Revenue and Taxation Code. (Priority 1)

The Finance Director should:

6.7 Direct the Internal Audit Division to biennially review a sample of penalty appeal cases to ensure consistency of procedures, documentation and decisions. (Priority 3)

Although the Department would have to devote resources to implementation of the recommendations, most costs could be absorbed within the existing budget.

The cost to implement Recommendation 6.1 would depend on the volume of cancellations affected, the number of staff involved in processing the cancellations, the type of reports prepared and whether the reports could be automated. The department would experience two key benefits from development of such reports. First, the department would be in compliance with State law. Second, such reports could enable management to more fully understand the causes of erroneous penalties. This information could be used to make changes to reduce the number of erroneous penalties, and therefore reduce the cost of processing cancellations.

Implementation of Recommendations 6.2 and 6.3 would nominally increase the time and thus costs to prepare each appeal file. However, having records and decisions systematically documented would also save time in those instances when cases are reconsidered by the Tax Collector or when administrative staff pull case files to answer appellants' questions. In addition, documenting consistency in procedures and appeal decisions would help to insulate the County against potential litigants' claims that decisions are arbitrary or capricious. Having a lower-level manager responsible for making most penalty appeal judgments would free up a substantial portion of the Tax Collector's time.

Developing a cancellation policy per Recommendation 6.4 would require management to devote time to its development. However, implementation of policies and procedures is an essential function of management and should be absorbed within existing management duties. In addition, other counties have well-established policies that can be adapted easily.

Depositing checks promptly per Recommendation 6.5 would result in both increased revenues and increased costs. The increased revenues would be generated from interest earnings on deposits. Processing refunds and refunding interest earned when $10 or more, would increase costs. Usually, however, it will be more cost effective to deposit all checks promptly and incur refund costs as necessary than to forego both interest earnings and refund costs. In addition, depositing checks will reduce the risk of loss or theft. Refunding interest earned when $10 or more per Recommendation 6.6 would ensure County compliance with State law.

Implementation of Recommendation 6.7 to biennially review a sample of penalty appeals would increase the level of service required of the Controller-Treasurer's staff. It would require one to two days of a staff person's time every other year. The value of this staff time is estimated to be less than $700. The benefit of this review would be to ensure that procedures are consistently applied and that outcomes are demonstrably consistent. Such consistency would ensure that taxpayers are treated fairly and reduce the risk of litigation.

Section 7: Credit Card and E-Check Fees

The Tax Collector accepts cash, checks, money orders and electronic transfers from commercial institutions without charge for payment of property taxes. Payments made by credit card or electronic check are subject to fees pursuant to contracts entered into by the Tax Collector and a private vendor. Although State law requires such contracts to be approved by the Board of Supervisors, this contract, which results in annual transaction fees of more than $400,000, has not received legislative scrutiny. Taxpayers using credit cards are charged 2.5 percent of the transaction amount, and e-checks are assessed a fee of $15 or $27 depending on the amount of the tax bill. Taxpayers have not been adequately represented in the execution of the transaction services contract for credit card and e-check property tax payments.

Due to the high fees charged for electronic credit card and e-check property tax payments over the Internet, taxpayers are discouraged from utilizing these alternative and potentially more efficient methods of payment. Based on surveys, some counties charge lower fees for credit card transactions and no fees for e-check payments. In addition, the Tax Collector's e-check fee is substantially greater than the charge to the Tax Collector under the e-check contract. Departments act independently and without policy direction in the acceptance of credit card and alternative methods of payment.

Tax Collector e-check and credit card payment service contracts should be reviewed and approved by the Board of Supervisors to comply with State law. The Board of Supervisors should enact credit card and electronic payment policies to ensure an appropriate balance between taxpayer convenience and County efficiency in the collection of property taxes and the collection of other County fees and charges.

Based on these findings, the Tax Collector should:

7.1 Seek delegation of authority or present the current contract for credit card and e-check payment of property taxes to the Finance and Government Operations Committee and Board of Supervisors for approval. (Priority 1)

7.2 Provide an annual report to the Finance and Government Operations Committee to include the volume of property tax payment methods and the relative cost of each type of payment to the taxpayer and to the County. (Priority 3)

7.3 Reduce the e-check transaction fee to the transaction cost and any documented internal costs until the Board of Supervisors enacts policies related to the treatment of credit card and electronic transaction costs and fees. (Priority 1)

The Controller-Treasurer should:

7.4 Amend the County's cash handling policy to address the acceptance of credit card and electronic payments for County fees, charges and services, and present the policy to the Board of Supervisors for approval prior to issuing an E-Payment Request for Proposal (RFP). The proposed policy should include direction to departments to evaluate the costs and benefits of accepting credit cards and electronic payments when determining what forms of payment a department will accept. (Priority 2)

The costs associated with the recommendations in this section of the report include the reduced e-check revenue should the fee be reduced. There will also be staff costs to develop policies and prepare the annual report for the Finance and Government Operations Committee. The benefits include compliance with State law and the intent of the County's contracting policies regarding the approval of credit card fees by the Board of Supervisors. Additionally, the negotiation of a lower credit card transaction fee represents a savings to taxpayers of approximately $60 on two $3,000 tax bills, or $100,000 total based on FY 2003-04 credit card transaction fees. The eventual savings based on policies set by the Board of Supervisors regarding the promotion of credit card and other payment methods would not be known until such time as policies are enacted and transaction volume increased.

Section 8: Systems Development

The Tax Collection and Apportionment System (TCAS) project relies on the investment of County General Fund and other County resources, including Property Tax Administration Program (PTAP) funds and Tax Collector trust funds. The potential to market the system to other counties has been conceptualized by the Finance Agency but not reported to the Board of Supervisors. There is no process in place to validate the budgetary assumptions of the savings that will result, or to ensure that these savings are realized. The Information Technology Executive Committee (ITEC) consideration of General Fund support of the project does not consider all possible funding sources.

The Board of Supervisors requires clear and comprehensive return on investment information by which to allocate limited resources to technology and capital projects. However, having been given limited information, the Board of Supervisors and the County Executive have not been able to consider the return on investment of TCAS or all available funding for the project. Limited General Fund Resources may be unnecessarily expended on TCAS when other appropriate funding sources, including PTAP, are available.

The Finance Agency should develop and provide to the Board of Supervisors a business plan for the possible sale and implementation of TCAS in other counties. The Office of Budget and Analysis should test the budgetary assumptions of ITEC proposals and provide a report back to the Board of Supervisors on actual realized savings as part of the budget process. The ITEC process should include the consideration of all possible sources of support for recommended projects.

Based on these findings, the Tax Collector and the Finance Agency should:

8.1 Provide an off agenda report to the Board of Supervisors describing the business plan to market TCAS to other California counties. (Priority 3)

The Tax Collector should:

8.2 Provide an annual report to the Board of Supervisors through the ITEC process quantifying the achieved efficiencies, elimination of positions and increased collection of property taxes from TCAS. (Priority 2)

The Office of Budget and Analysis should:

8.3 Validate savings and revenue estimates included in proposals to the Information Technology Executive Committee and follow-up to ensure actual savings are realized after approved projects are implemented. (Priority 2)

8.4 Review ITEC proposals to identify all potential and appropriate revenue sources available to fund each proposal. (Priority 3)

The Board of Supervisors should:

8.5 Request a formal written opinion from the Office of the County Counsel specifying the authority of the Board of Supervisors in the appropriation and re-appropriation of prior year, current year and future PTAP funds. (Priority 1)

8.6 Consider utilizing PTAP funds for all PTAP-eligible technology projects, including TCAS, prior to approving General Fund expenditures. (Priority 1)

The benefits associated with the recommendations in this section of the report include validity of ITEC budgetary assumptions and realization of actual savings from ITEC approved projects, including TCAS. The recommendations also provide the potential to increase non-General Fund support of TCAS and other ITEC projects, reducing General Fund resources and making such resources available to support ongoing operations. The identification and allocation of non-General Fund resources in FY 2005-06 could reduce General Fund expenditures of $1.8 million on a one-time basis, and approximately $3 million annually for the subsequent two fiscal years.

Section 9: Business Process Transition Planning

Since FY 2000-01, the Tax Collector's Office has been actively planning for and designing a new system to replace its existing tax collection management computer system. The proposed new Tax Collection and Apportionment System (TCAS) will require the reengineering of business processes in the Tax Collector's Office, and is projected to result in the elimination or redeployment of 18 positions in the Finance Agency. Personnel responsible for the implementation, utilization and maintenance of the new system will need to continue the collection of taxes, test and learn the new processes and participate in the implementation as positions are eliminated.

Implementation of the new system will require existing Tax Collector personnel to be trained to understand, use and maintain the new system to successfully migrate into this new structure and process. However, a comprehensive training plan has not yet been developed. Neither the staff requirements that the new system will demand nor projected personnel changes have been communicated to staff, affected labor organizations or the Employee Services Agency.

As a result, projected cost savings and operating efficiencies of the new system may not be realized as planned, and implementation of TCAS may be delayed until staff are adequately trained. In addition, the current positive labor relations and high morale within the Tax Collector's Office may be compromised if the anticipated changes are not fully disclosed with the assistance of the Employee Services Agency early in the process. A decrease in staff confidence and trust could result in losses in productivity and tax collection during and after implementation of the new system.

By developing a comprehensive training and transition program, with the assistance of the Employee Services Agency, that provides existing staff with the knowledge and skills necessary for the successful operation of the new system, implementation delays can be avoided and high tax collection rates can continue without disruption.

Based on these findings, the Tax Collector should:

9.1 Develop a training plan that defines functional staffing strength and personnel skill requirements that will allow current staff to obtain the skills necessary to fill new or modified roles. (Priority 2)

9.2 Collaborate with the Employee Resources Agency to communicate potential staffing changes to affected labor organizations and employees of the Tax Collector's Office and other departments in the Finance Agency as the project proceeds. (Priority 3)

There are budgeted expenditures of the proposed Tax Collection and Apportionment System (TCAS). These costs include ongoing funding of the TCAS team within the Office of the Tax Collector. The members of this team, as well as the management of the Tax Collector's Office and the Finance Agency are sufficient to implement the transition plan, as outlined in this section of the report.

The savings and benefits related to the implementation of the recommendations include continued tax revenue to the County and the eventual elimination of nine positions plus increased collections, as presented in the Tax Collector's report back to ITEC on March 11, 2005. The benefits of implementing the recommendations include the continued high collection rate of property taxes in the County and the preservation of high morale and productivity in the Office of the Tax Collector. The recommendations are intended to maximize the opportunity for the TCAS system to be implemented successfully, providing the County with the highest possible return on investment.

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Introduction

This *Management Audit of the Tax Collector* was authorized by the Board of Supervisors of the County of Santa Clara in August 2004, pursuant to the Board's power of inquiry specified in Section 302 (c) of the Santa Clara County Charter.

Purpose and Scope

The purpose of the management audit was to examine the operations, management practices and finances of the Office of the Tax Collector, and to identify opportunities to increase the Department's efficiency, effectiveness and economy.

As part of this management audit, we interviewed representatives from the Tax Collector and other County departments, including the Auditor-Controller, Employee Services Agency, Department of Revenue, Internal Audit Division, Patient Business Services in the Santa Clara Valley Health and Hospital System, Information Services Department and County Counsel. When necessary, we contacted other agencies, such as the Assessor's Office, to verify processes and discuss audit areas in which they played an important role. We also reviewed documentation provided by the Tax Collector, survey responses provided by other California counties, and various other internal and external documents to understand the operations of the Santa Clara County Tax Collector and the areas discussed in the audit. During peak season, we observed the acceptance of property tax payments, processing of checks through the mail opening and remittance processing machines, and reconciliation of the daily deposit and hand-off to a courier. Finally, as described more fully in the first section of this report, we conducted an inventory of all checks in the Tax Collector's Office over a 24-hour period in late February 2005.

While Management Audit Division staff seek to focus solely on the auditee and its operations, the inter-relatedness of County departments occasionally requires audit findings to consider other departments and include recommendations to improve the overall effectiveness of County operations. Some sections thus include recommendations that would require action by departments other than the Tax Collector. These sections were provided to the other departments so that they could provide written responses, which are attached.

This report includes nine findings and associated recommendations that encompass major areas of Tax Collector operations. Included are findings related to depositing all property tax payments received by the office, collecting unsecured property taxes, implementing County-wide polices and procedures on fees, updating taxpayer addresses, approving credit card and e-check fees and developing a new Tax Collection and Apportionment System. The report identifies $749,100 in potential ongoing General Fund cost savings and increased revenues, and additional one-time General Fund savings of approximately $2.6 million. The gross cost savings or additional revenue to other taxing entities, based on recommendations in the report, is more than $3.3 million. Taxpayers could also benefit from transaction fee savings of $100,000 annually and improved processes related to address corrections, property tax payments and penalty appeals.

Audit Methodology

This management audit was conducted under the requirements of the *Agreement for Services between the County of Santa Clara and the Harvey M. Rose Accountancy Corporation for Management Audit Services*. That agreement states that management audits performed under the contract are to be conducted under generally accepted government auditing standards issued by the United States General Accounting Office. In accordance with these requirements, we performed the following management audit procedures:

- Audit Planning – The management audit was selected by the Board of Supervisors using a risk assessment tool and estimate of audit work hours developed at the Board's direction by the Management Audit Division. After audit selection by the Board, a detailed management audit work plan was developed and provided to the Department.

- Entrance Conference – An entrance conference was held with the Tax Collector and managers to introduce the management audit, describe the management audit program and scope of review, and respond to questions. A letter of introduction from the Board, a management audit work plan, and a request for background information were also provided at the entrance conference.

- Pre-Audit Survey – A preliminary review of documentation and interviews with managers from the involved departments were conducted to obtain an overview understanding of the Tax Collector, and to isolate areas of operations which warranted more detailed assessments. Based on the pre-audit survey, the work plan for the management audit was refined.

- Field Work – Field work activities were conducted after completion of the pre-audit survey, and included: (a) interviews with management and line staff of the Department; (b) a further review of documentation and other materials provided by the Department and available from other sources; (c) analyses of data collected manually and electronically, via the Tax Collector's systems and the County's accounting system; and, (d) surveys of other jurisdictions to measure performance and to determine organizational and operational alternatives that might warrant consideration by the County of Santa Clara.

- Status Reporting – Periodic status meetings were held with the Tax Collector and managers to describe the study progress and provide general information on our preliminary findings and conclusions.

- Draft Report – A draft report was prepared and provided to the Tax Collector. The draft report was also provided to County Counsel to obtain input regarding legal issues that surfaced during the course of the study and to internal and external organizations described or discussed substantively in the draft report.

- Exit Conference – An exit conference was held with the Tax Collector and responsible managers to collect additional information pertinent to our report, and to obtain their views on the report findings, conclusions and recommendations. A similar exist conference was held with staff in the Assessor's Office.

- Final Report – A final report was prepared after review and discussion of the report content with responsible managers and the Tax Collector. Management was requested to provide a written response, which is attached.

Description of Tax Collector Services

The Tax Collector is responsible for collecting current and prior year secured property taxes, supplemental property taxes, and current and prior year unsecured property taxes. The Tax Collector also collects special assessments from service recipients on behalf of taxing entities, which include the County, cities, school districts and special districts. To fulfill these duties, Tax Collector staff perform billing, remittance processing, record management and receipt reconciliation, as well as provide taxpayer assistance in person and on the phone. Real property owners account for the largest percentage of service recipients, representing $2.45 billion in annual tax bills. In addition, the largest corporations and companies pay hundreds of millions of dollars due on the real property tax roll. Service recipients remit property taxes in person, by mail, via the Internet and through mortgage impound accounts, and have access to several payment alternatives, including electronic fund transfers, e-checks and credit cards.

In FY 2003-04, the Tax Collector's Office successfully collected $2.41 billion, or 98.4 percent, of all secured property taxes charged. Similarly, on the unsecured roll, the office collected nearly $255 million, or 95.8 percent, of all taxes charged for FY 2003-04. Each year California counties provide the State of California with data regarding this percentage. As Attachment I.1 illustrates, Santa Clara County ranks 18th among all California counties in the collection of taxes, and seventh among the 11 California counties with annual secured billing greater than $1 billion, based on data from FY 2003-04. The margin, or difference between the total taxes issued and total taxes collected by the Santa Clara County Tax Collector, equaled $49.4 million in FY 2003-04. This amount does not include penalties and interest that may have been collected or collection of prior year taxes. Ideally, the Tax Collector collects taxes prior to the delinquency deadlines, so as to avoid the penalties and interest incurred by taxpayers and additional administrative expenses incurred by the County.

Budgeted Revenues and Expenditures

Because the Tax Collector's primary role is tax collection, some of the tax revenues appear in the Department's budget. In FY 2004-05, the Tax Collector is budgeted to receive $364,753,010, but expend only $7,261,591 across all funds.[1] The Tax Collector seeks to recover the costs of tax collection through many methods, as discussed throughout the report. These methods include the proper charging of administrative costs to allowable tax receiving entities, fees to individuals and organizations for

[1] FY 2004-05 Final Budget, page 117, and SAP reports to confirm amounts.

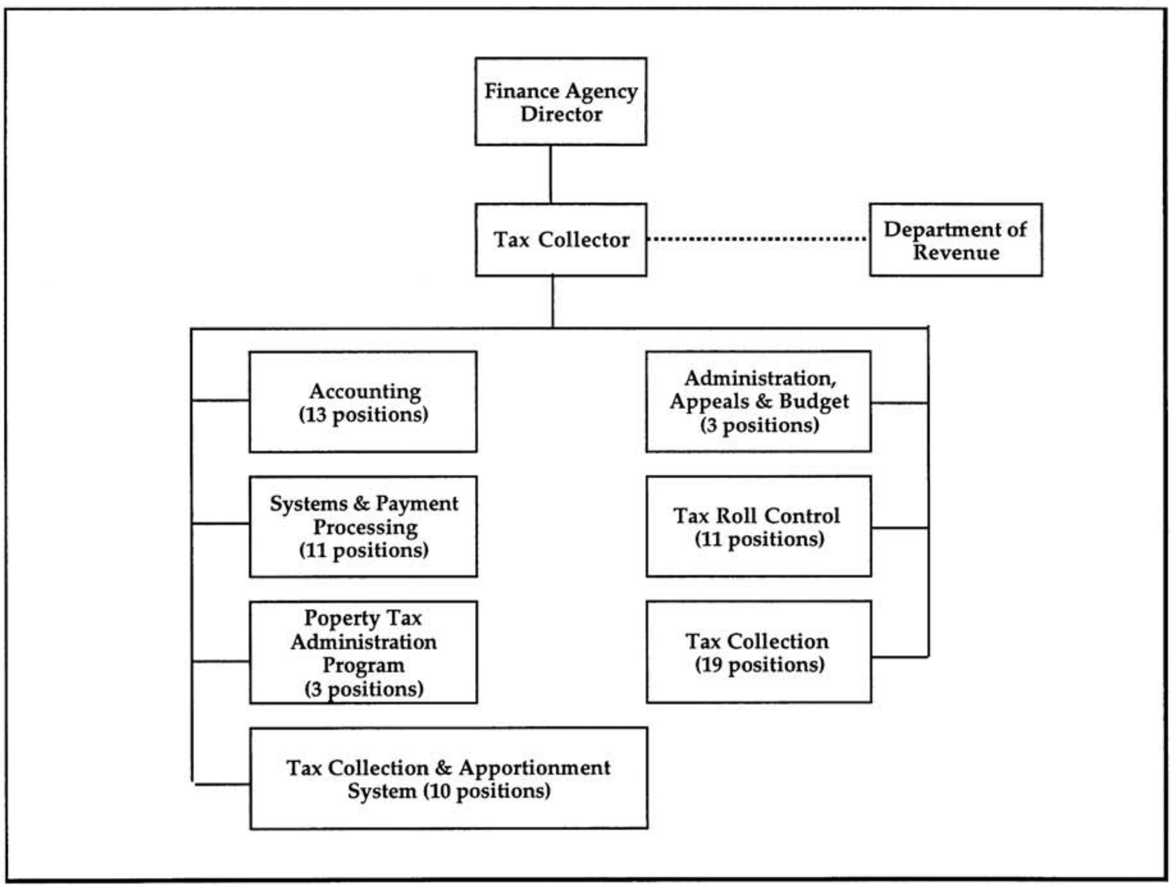
services provided, and penalties, interest and costs to taxpayers when taxes are delinquent. The Department also receives the support of non-General Fund sources, such as the Property Tax Administration Program, when possible.

Organizational Placement and Structure

The Tax Collector is one of four departments organizationally placed under the Director of the Finance Agency. The Santa Clara County Ordinance Code established the Finance Agency and its Director, who serves as the ex-officio Tax Collector, Auditor-Controller, Treasurer, and Clerk-Recorder. As the ex-officio Tax Collector, the Director of Finance appoints a person to act as the Tax Collector on his or her behalf. Many other California counties operate under a system in which the Tax Collector is elected, rather than appointed. The Tax Collector's Office consists of 71 positions, which are divided as depicted in the following organizational chart.[2]

Chart I.1

Santa Clara County Office of the Tax Collector
Organization Chart for Fiscal Year 2004-05



[2] The chart is taken from the FY 2004-05 Final Budget. While the Department of Revenue (DOR) moved into a lateral position with the Tax Collector in FY 2004-05, DOR was not included in the scope of our review.

A brief description of each primary organizational division is provided below. These descriptions were taken from the *FY 2005-06 Mandate Study, An Analysis of General Fund Discretionary Resources and the Minimum Legal Funding Requirements Related to 549 County Programs and Functions*, as developed by the Management Audit Division and reviewed by the Tax Collector.

Administration, Appeals and Budget

The Administration, Appeals and Budget Division includes the Tax Collector and three other positions. Staff are responsible for department management and fiscal, budgeting, purchasing and personnel. Specifically, staff prepare the departmental payroll, process paperwork for new hires, conduct purchasing and procurement activities as necessary, and process accounts payable. They also process penalty appeals, coordinate office safety, perform facility management, arrange for service calls to equipment such as copiers and telephones, coordinate staff training, and arrange travel for management.

Accounting

With 13 positions, the Accounting Division is responsible for accounting to the County auditor all tax money collected, filing a statement of all transactions and receipts, and preparing and filing collection reports with the Auditor. These functions are mandated and performed in accordance with Revenue and Taxation Code Sections 2616, 2628, 2856 and 2602. Auditor Collection Reports must be filed on or before August 10. Staff members reconcile all property tax collections (secured, unsecured, State Board of Equalization, supplemental and redemption), manage the Tax Collector's trust fund, including reconciling and transferring unclaimed funds to the General Fund, process and mail refunds, process impound payments from mortgage companies and provide refunds to impound companies. Additionally, the Accounting Division is responsible for the retention of assessment and payment records for a minimum of 12 years in accordance with the Revenue and Taxation Code.

Systems and Payment Processing

The 11 positions assigned to the Systems Division are responsible for supporting the technology used by the Tax Collector to perform its mandated duties. This includes support of the BancTec Remittance Processing System, the Tower Document Management and Imaging System, the Tax Information System and the Tax Collector's Office Internet Payment System. Additionally, they manage the tax applications at Information Systems Division and support the hardware and software used by Tax Collector employees.

Property Tax Administration Program

The Office of the Assessor and County of Santa Clara receive grant funding from the State of California to improve the County's property tax administration system. The Tax Collector has received Property Tax Administration Program (PTAP) support of the Tax Collection and Apportionment System (TCAS) project, the TCAS team and other specific Tax Collector personnel, who must demonstrate that the allocated funds result in quantifiable improvements each year. Unexpended funds that remain at the end of each fiscal year are available for use by the Board of Supervisors, so long as the use does not supplant General Fund expenditures, is consistent with the statutory language of the legislation and grant documents, and is reported to the Department of Finance.

The PTAP-supported positions in the Tax Collector's Office include one position in payment processing that re-sends returned mail. In addition, two collector positions are funded for tracking bankruptcy and intensified collections of unsecured delinquent taxes in the first three years of delinquency.

Tax Collection

The Tax Collection Division is responsible for collecting secured and supplemental taxes that are assessed against real property, (e.g., land or structures) in accordance with Revenue and Taxation Code Section 2602, which mandates the Tax Collector's Office to collect and account for all property tax. The tax is a lien that is "secured" by the land/structure, even though no document was officially recorded. In accordance with Revenue and Taxation Code Section 2610.5, the Tax Collector must mail or electronically transmit County tax bills to property owners on or before November 1 of each year.

Within Tax Collection, 10 positions in the Tax Information Unit assist the public with any questions or concerns about their secured tax bills. During FY 2002-03, the Tax Information Unit received over 365,000 phone calls and 20,973 inquiries at the public counter. Staff who perform this function provide tax information to taxpayers on current annual and supplemental secured taxes, including delinquent tax information. They process all prior year delinquent secured and supplemental tax payments, according to Revenue and Taxation Code Section 4101, and prepare pay-off data in the form of tax lien clearances and payment verifications. Additional duties include establishing and maintaining delinquent secured and supplemental payment plans, when applicable, and researching and solving tax billing inquiries.

For secured or supplemental taxes that remain unpaid after a period of five years, the property may be sold to cover the taxes, penalties, interest and costs owed. The Tax Collection Division currently has one staff person assigned to this function. The staff person does not go in the field or make phone calls until the taxes have been unpaid for five years, since there is no provision in State law that mandates the Tax Collector to do anything until that time. Although the County is not mandated to sell property when a taxpayer defaults, property sales must occur in accordance with Revenue and Taxation Code Sections 3351-3353, 3361 and 2963. Properties are either offered at public auction to the general public or sold by agreement to a public agency or non-profit organization.

The Division also has seven positions in the Unsecured Collection Unit where staff are responsible for collecting unsecured taxes on property that can be relocated and is not real estate, in accordance with Revenue and Taxation Code Sections 2901 and 2602. The tax is assessed against such items as business equipment, fixtures, boats and airplanes.

Additionally, Revenue and Taxation Code Section 2189.1 mandates that state-assessed personal property unpaid after June 30 shall also be transferred to the unsecured roll. Staff must provide a tax bill for assessments on the unsecured roll via mail or electronically no later than 30 days prior to August 31, in accordance with Revenue and Taxation Code Section 2910.1. If the unsecured tax is not paid, a personal lien is filed against the owner, not the property. To effect these collections, the collectors perform site visits, review financial records, establish and monitor payment plans, record Certificate of Tax Liens and Summary Judgments, and initiate seizure and sale of unpaid properties. Collections are obtained on all current year and prior year delinquent unsecured taxes.

<u>Tax Collection and Apportionment System</u>

The 10 positions in this Division include staff who have been chosen, based on their experience and expertise, to create the necessary documentation and collaborate with a vendor to be named in the development and implementation of a replacement Tax Apportionment and Collection System (TCAS). As the phases of the system are completed, the TCAS staff are expected to transition into a role of training Tax Collector staff on the use of the new system.

Change within the Tax Collector's Office

At the time this management audit took place, the Tax Collector's Office was in a period of transition and stabilization due to leadership changes and system improvements. The previous Tax Collector had become ill and passed away prior to our arrival, so two division managers had temporarily assisted in the Department's management under the leadership of the Director of the Finance Agency. The current Tax Collector was appointed immediately before the time the audit was conducted. Despite recent instability, the morale and teamwork among Tax Collector staff is exemplary, and the ability of the office to continue to carry out its mission is commendable. This was proven, in part, by a sick leave analysis that showed that Tax Collector staff claimed 21 percent less time off from work due to illness on average than all County employees.[3] In addition, the Department is in the process of developing and implementing a new Tax Collection and Apportionment System (TCAS) that will change the technology used by the Department to carry out its mission. The Tax Collector's Office, as a whole, is waiting to see what TCAS will look like, and what the effects of the system will be on staff, taxpayers and tax collection and apportionment in Santa Clara, and possibly throughout the State of California.

The inter-relatedness and complexity of the Information Services Department (ISD) mainframe system and Tax Collector's Tax Information System (TIS), and the need for a new system are underscored by a recent error in the total amount due printed on delinquent tax bills. For a limited number of delinquent bills sent to taxpayers early in Calendar Year 2005, the total amount due in the lower right hand corner of the Tax Bill

[3] The sick leave analysis was based on Tax Collector staff payroll hours between December 22, 2003 and December 19, 2004 and compared to an analysis of actual hours for all County employees in FY 2003-04.

understated the actual amount due by $20. This error occurred because the recently enacted $20 billing, processing and collection fee on late first installments was added to all components of the tax bill, except the total amount. This was reportedly related to the structure of the ISD mainframe system, where the programs related to bill printing are written in COBOL. The Tax Collector's Office recognized this error when the first taxpayer contacted the office regarding the discrepancy in the bill. The Tax Collector has implemented a solution to a) correct the error in all future tax bills immediately and b) process the payments that are $20 short as full payments, so as to not penalize taxpayers for the error in the printed bill. The Tax Collector explained to Management Audit Division staff that this type of error is another example of the need for TCAS, since it would ensure that totals both in the system and on the tax bill tie to one another. The Tax Collector provided an estimate that the error would result in approximately $6,000 (300 * $20) in lost revenue on a one-time basis. This loss will be incurred completely by the County, because the $20 fee is a "county-only" charge.

Tax Collector Accomplishments

Management audits typically focus on opportunities for improvements within an organization. To provide a more balanced perspective on operations, Section 8.48 of the Government Auditing Standards, 2003 Revision, published by the United States General Accounting Office, requires that the management audit report include "positive aspects of the program reviewed." This section of the Introduction thus summarizes some of the current noteworthy accomplishments of the Tax Collector's Office. In order to allow the Tax Collector to highlight those accomplishments she feels are the most noteworthy, Management Audit Division staff requested and received a list of accomplishments from the Tax Collector. This list of accomplishments is included with this report as Attachment I.2 to the Introduction.

Some of the more noteworthy Office of the Tax Collector accomplishments are provided below:

- Continued efforts and progress towards the replacement of the 40-year-old legacy COBOL mainframe tax collection and apportionment system with a modern integrated system to encompass the functions of tax collection and all apportionment functions. The new Tax Collection and Apportionment System (TCAS) is expected to ensure the accuracy of funds apportioned and improve the efficiency of collections while providing a higher level of public service.

- Last year, the Tax Collector's Office, in a joint effort with the Clerk-Recorder's Office, implemented a process whereby tax liens are recorded electronically. As a result, over 80 percent of the tax liens recorded do not require manual processing.

- Development of a Tax Collector website that offers information relating to tax amounts, values, special assessments, tax rate areas and payment history. On its busiest day, December 10th, over 4,000 people accessed the website, visiting over 14,000 pages.

- Provision of alternative methods of payment, including credit card over the Internet and E-Checks.
- Faster reflection of payments on the Internet, IVR and the Tax Information System (TIS) each evening. Previously, a delay of 24 hours to three weeks, depending on the type of payment and time of year, could occur as the Office waited for mainframe processing.
- Successful participation in the Property Tax Administration Program (PTAP), resulting in increased collection and accelerated collections that have benefited the County and other taxing jurisdictions.

Topics Requiring Additional Review

During the course of a management audit, certain issues may be identified and brought to the attention of the department being audited and the Board of Supervisors, even though a specific finding is not included in the report. Discussed below are operational issues for which we did not develop specific findings, but are important issues of which the Tax Collector should be aware.

Taxpayer Information Correction Bills

The Tax Collector's Office produces and sends secured property owners a taxpayer information correction bill, also known as a Code 42 bill, shortly after a change in name, owner, trust or mailing address. A note on the bill indicates that it is a duplicate, why it was issued and whether any installments were paid. In addition to providing taxpayers with a notice confirming receipt of changed information, the Code 42 bill is used to notify some taxpayers that a payment may be due. The Tax Collector believes that new owners may not always be aware of an outstanding tax liability, even though such information is generally provided with escrow, because annual tax bills are only mailed once each year, in the fall. However, State law does not require the Tax Collector to issue Code 42 bills, which are sent in only three of the six other most populous counties that we surveyed.

Code 42 bills are generally issued on four scheduled dates in October, November, February and March, as well as in smaller batches as needed throughout the year. This schedule has been established to avoid confusion with the delinquent tax notices on secured property sent in January and May. However, regardless of when Code 42 bills are issued, they can be redundant and potentially cause taxpayer confusion. For example, of the 53,027 bills issued in FY 2003-04, 18.1 percent (or 9,575) were sent even though the secured property taxes on the parcels were already paid in full. Since Code 42 bills cost an average of $0.47 to process, print and mail, the Tax Collector spent at least $4,500 unnecessarily. The cost would undoubtedly be higher depending on the staff time used to answer calls about or process payments from Code 42 bills.

Because Code 42 bills can be confusing to taxpayers, we attempted to determine how many taxpayers called the Tax Collector's Office about the Code 42 bills that were issued in February 2005. We were unable to make this determination, since the reports that the former supervisor of the Tax Information Unit created in Symposium, the software used to monitor call data, had been deleted when the supervisor had been reassigned to another area of the office. The only reports remaining in Symposium are generic reports that have not been filtered to display useful information for the Tax Information Unit. Although we could not precisely quantify the workload generated from answering calls about Code 42 bills, the Tax Collector estimated that staff might receive 300 calls on every 10,000 bills sent. Since 53,027 Code 42 bills were issued in FY 2003-04, we estimated they could have generated more then 1,500 calls.

Although we could not produce evidence that Code 42 bills generate duplicate tax payments that would not otherwise be received, we believe such duplication is probable. As explained elsewhere in this report, when duplicate tax payments are received, a whole series of special processing steps may be triggered, which consume significant amounts of staff time, compromise internal controls and can cause additional taxpayer confusion. As mentioned, 9,575 Code 42 bills issued in FY 2003-04 were sent unnecessarily, and among the remaining 43,452 bills, the Systems Division was unable to determine how many taxpayers paid unnecessarily in response to receiving a Code 42 bill.

With the new Tax Collection and Apportionment System (TCAS), the Tax Collector plans to issue notices, rather than bills, to acknowledge a taxpayer's change of information, when appropriate. Furthermore, any Code 42 bills that are issued for taxes not yet paid will include clear and improved information. Since TCAS will not be fully functional for three to four years, we recommend that, in the meantime, the Tax Collector send Code 42 bills only to existing or new owners who have a remaining balance due on their annual secured property taxes. However, Code 42 bills should not be sent due solely to a change in name. Without also changing their address, these owners would receive an annual tax bill, so sending another bill is duplicative and of questionable value.

Cash Payments Collected in the Field

When in the field, unsecured tax collectors are permitted to accept cashier's checks, money orders or cash from taxpayers to pay their delinquent unsecured tax bill, as opposed to having their property seized by collectors. To control the receipt of these payments, the Accounting Division issues receipt books to collectors, who provide original receipts to taxpayers and retain carbon copies for the Department. However, the Accounting Division does not receive the carbon copies until the receipt books are filled completely or a collector leaves the Department.

In addition, if collectors receive a cash payment in the field, we were told that, upon returning to the office, they are immediately supposed to take the cash payment to the Treasury cashier, who prepares a receipt. Furthermore, if collectors return later than 4 p.m., when the Treasury counter is closed, they are supposed to give the cash payment to the cashier to hold until the next morning when a receipt can be produced. Collectors are not allowed to leave cash payments in their desks. Since these procedures were given to us verbally, and we were unable to observe collectors take a cash payment, there is no way to know for certain whether collectors are following them.

At the same time, collectors commented that they rarely go into the field to seize property, and as a consequence collect cash payments, since they can now levy bank accounts. This was supported by data showing a decline in seizures and an increase in levies over the past three fiscal years. While exposure in this area appears to be low, adequate receipt book controls and reconciliation processes have not been developed to ensure that all cash payments are received by the Department. In order to prevent any misuse of cash payments, the Tax Collector should end its practice of accepting cash payments for unsecured taxes in the field.

Low Value Parcels

Whereas, five of six other counties surveyed do not enroll or bill low value parcels on the secured roll, Santa Clara County does. Orange, Fresno and San Joaquin Counties, for instance, do not enroll secured property with an assessed value under $2,000 or another threshold, while Sacramento and Los Angeles Counties enroll all secured property but do not issue tax bills for certain assessed values or bill amounts. Revenue and Taxation Code Section 2611.4 allows counties "...to refrain from collecting any tax, assessment, penalty or cost, license fees or money owing to the county where the amount to be collected is twenty dollars ($20) or less." By changing how it handles low value parcels, Santa Clara County may reduce the workload and costs associated with enrolling these parcels and issuing bills, attempting to locate and collect from taxpayers, and auctioning secured property for which taxes have not been fully paid for more than five years.

For example, Tax Collector staff in charge of the auction generates a list of secured parcels valued under $2,000. This is done before every auction so that the taxes, as well as associated penalties, interest, costs and special assessments, can be cancelled, per Revenue and Taxation Code Section 4986.8. In preparing for the 2005 auction, the Tax Collector recommended the cancellation of only about $4,000 in taxes but more than $99,000 in special assessments and $90,000 in penalties, interest and costs. This task also requires that Tax Collector staff prepare and submit a letter notifying the applicable taxing jurisdictions of the cancellations. Despite the current manual nature of this task, most of it will be automated with the implementation of the new Tax Collection and Apportionment System, and the overwhelming majority of taxpayers with secured parcels valued under $2,000 do pay their tax bills each year. In FY 2003-04, the County issued 2,544 bills for these parcels and received $292,397 (or 87 percent) of the total charge on these bills.

In light of these facts, low value parcels should continue to be enrolled and billed, but the Tax Collector should consider whether to recommend the cancellation of unpaid tax bills on low value parcels sooner than after five years. The Assessor's Office suggested that County Counsel draft an ordinance that would allow the cancellation of tax bills amounting to $20 or less that remain unpaid as of the second installment delinquency date. This would allow the County to maximize property tax revenue for tax-receiving entities while reducing any liability resulting from unpaid tax bills, since the County uses the Teeter method of apportioning tax revenues on the secured roll. Under this method, the County must apportion the full value of the secured roll, regardless of whether all taxes are collected. In return, the County receives the full amount of any penalties, interest and costs paid for with delinquent taxes.

Survey of Other Jurisdictions

At the outset of the audit, the Santa Clara Tax Collector provided Management Audit Division staff with a great deal of information regarding the tax collection function in many other California counties. To gain a more complete understanding of the distinctions and similarities across counties, we developed an additional survey in conjunction with the Santa Clara Tax Collector and solicited responses from Santa Clara and the 14 other most populous counties. We received responses from tax collectors in Santa Clara and six other counties.

Where appropriate, information from the surveys has been included in the body of the audit report. It should be noted that the survey responses are self-reported information by the counties. Management Audit Division staff did not verify the accuracy of the information reported. A summary of survey responses from each county is provided as an attachment to this Introduction. Copies of the full response by each jurisdiction are available upon request.

Highlights from the survey responses include:

- The Tax Collector is elected in Fresno, Orange, San Mateo and San Joaquin counties; other respondents reported having appointed Tax Collectors.
- Fresno, Los Angeles and San Joaquin counties do not send "courtesy" bills; Orange and Sacramento send such notices twice a year, Santa Clara sent notices four times this year, and San Mateo sends notices throughout the year.
- Except Los Angeles County, respondents generally do not accept partial payment of secured taxes.
- Three counties – Los Angeles, Orange, and San Mateo – deposit tax payments upon receipt under all circumstances. Fresno County holds checks in some circumstances, and Sacramento, San Joaquin and Santa Clara Counties do not deposit tax checks if they cannot be immediately processed.
- Fresno, Sacramento, San Mateo and Santa Clara hold penalty and tax amount checks while penalty appeals are considered. Los Angeles, Orange, San Joaquin counties deposit the checks.
- None of the respondents have a penalty appeal policy approved by the Board, but most have departmental guidelines. The Tax Collector makes most penalty appeal determinations in Sacramento and Santa Clara counties. Other staff are instrumental in the decisions in the five other counties that responded. The

counties' reported length of time to make a penalty appeal decision ranges from two weeks in Santa Clara to up to three months in San Joaquin.

- Payment by credit card represented less than 1 percent of all tax dollars collected for all respondents except Los Angeles, which collected 1.2 percent of its taxes through credit card payments, and Orange, which collected 2.4 percent of all taxes through credit card payments.

- Fresno, Los Angeles, Orange, Sacramento and San Mateo counties accept credit card payments of secured taxes by phone. Fresno, Orange, Sacramento, San Mateo, and Santa Clara counties accept credit card payments over the Internet. Orange, San Mateo and Santa Clara accept credit card payments in the office via computer or point of service machines.

- Santa Clara took 7,600 credit card payments in FY 2003-04, more than most respondents except Los Angeles, which accepted 46,000 credit card payments and Orange, which accepted 38,000.

- Santa Clara and Orange counties plan to complete development of tax collection and apportionment computer systems by 2008. San Joaquin County bought a new tax collection system for $3.2 million in 2004. San Mateo County developed its own system, which it reported having offered to Santa Clara.

- Santa Clara last updated Tax Collector fees in 2003. Two tax collectors reported significantly outdated fees, and three reported having updated fees within the last 12 months.

Acknowledgements

We would like to thank the Tax Collector and her staff for their cooperation and assistance throughout this management audit. Staff were cooperative, open and eager to identify methods by which the Department can improve its operations and increase the level of customer service to taxpayers. Much of the data contained in the report was provided to Management Audit Division staff by managers, supervisors and line staff, and certain recommendations are the result of interviews with the Tax Collector and other involved departmental managers during the course of the audit. The Board of Supervisors should be pleased with the level of professionalism and quality of customer service delivered by the Office of the Tax Collector in Santa Clara County.

Attachment I.1

FISCAL YEAR 2003-2004 PROPERTY TAX COLLECTION STATISTICAL REPORT

COUNTY	SECURED TAX DATA				UNSECURED TAX DATA				UNSECURED BANKRUPTCY DATA				
	TAX BILLS ISSUED #	TOTAL TAX CHARGE $	TAX PAID AS OF 6-30-04 $	TAX PAID %	TAX BILLS ISSUED #	TOTAL TAX CHARGE $	TAX PAID AS OF 6-30-04 $	TAX PAID %	CLAIMS FILED #	TOTAL CLAIM $	CLAIMS PAID #	AMOUNT PAID $	CLAIMS PAID %
IMPERIAL	----	----	----	----	----	----	----	----	----	----	----	----	----
MONO	28,402	----	----	----	1,495	2,893,369	2,850,909	98.5	1	201	----	----	----
SANTA BARBARA	114,340	418,817,553	416,286,025	99.4	24,935	25,809,808	24,975,838	96.8	11	13,061	0	0	0.0
YOLO	53,297	162,276,589	160,727,212	99.0	4,759	8,796,911	8,613,438	97.9	----	----	----	----	----
ORANGE	792,722	3,114,903,169	3,080,934,134	98.9	175,126	182,607,338	178,146,148	97.6	247	1,502,310	16	443,545	6.5
PLACER	134,016	430,979,376	426,042,358	98.9	13,191	13,224,012	12,592,428	95.2	14	21,397	----	----	----
SAN FRANCISCO	185,730	1,014,187,774	1,002,152,520	98.8	26,777	82,308,800	79,196,334	96.2	82	8,597,213	59	2,755,684	72.0
SAN DIEGO	905,644	2,831,008,186	2,796,542,240	98.8	92,164	142,063,962	137,577,242	96.8	35	278,190	7	51,603	20.0
SAN LUIS OBISPO	122,864	285,456,220	281,970,170	98.8	19,455	9,270,056	8,805,629	95.0	28	162,233	1	2,781	3.6
VENTURA	466,674	808,474,507	798,521,974	98.8	37,012	38,452,529	35,991,956	93.6	90	756,497	75	364,042	83.3
MONTEREY	117,873	391,960,460	386,977,398	98.7	22,009	16,475,120	16,196,181	98.3	15	15,000	2	3,000	13.3
ALAMEDA	403,104	1,804,240,112	1,780,347,007	98.7	53,012	116,402,217	109,743,148	94.3	95	2,401,426	14	229,946	14.7
MARIN	92,867	485,190,745	478,628,993	98.6	11,520	12,311,634	11,419,434	92.8	----	----	----	----	----
GLENN	13,292	18,491,641	18,237,093	98.6	1,491	735,771	728,132	99.0	----	----	----	----	----
INYO	12,972	22,548,476	22,227,103	98.6	1,905	5,492,761	5,449,478	99.2	0	0	0	0	----
NAPA	48,189	194,621,382	191,764,113	98.5	7,042	7,307,811	6,896,435	94.4	3	5,884	0	0	0.0
KINGS	42,341	58,325,998	57,465,772	98.5	5,015	2,512,195	2,468,406	98.3	----	----	----	----	----
SANTA CRUZ	88,258	287,557,404	283,314,415	98.5	10,026	3,824,433	N/A	----	----	----	----	----	----
SAN MATEO	258,313	1,088,191,483	1,071,433,711	98.5	19,702	104,508,079	101,463,873	97.1	26	789,533	0	0	0.0
SANTA CLARA	453,908	2,450,641,090	2,411,760,206	98.4	63,180	265,954,516	254,894,281	95.8	650	15,744,421	254	10,540,932	39.1
SACRAMENTO	421,523	1,001,058,299	984,939,008	98.4	46,766	56,657,872	54,451,127	96.1	66	545,249	1	182	1.5
PLUMAS	22,939	29,439,479	28,951,899	98.3	3,907	834,624	725,872	87.0	7	58,509	----	----	----
NEVADA	56,632	111,853,346	109,977,834	98.3	4,881	2,849,558	2,789,170	97.9	3	14,595	----	----	----
CONTRA COSTA	328,864	1,354,342,797	1,330,474,922	98.2	48,606	45,053,936	44,075,313	97.8	----	----	----	----	----
SAN BENITO	19,359	54,691,180	53,601,524	98.0	1,739	1,931,381	1,877,585	97.2	0	0	0	0	----
BUTTE	91,368	128,124,411	125,508,538	98.0	8,143	6,664,337	6,401,315	96.1	4	14,869	2	1,808	50.0
EL DORADO	114,167	193,059,128	189,018,893	97.9	7,311	4,312,087	4,144,360	96.1	3	4,586	2	1,478	66.7
SHASTA	80,869	116,527,054	114,070,654	97.9	11,275	6,613,064	6,328,293	95.7	14	91,217	4	39,484	28.6
SOLANO	145,280	367,675,818	359,807,781	97.9	10,554	13,209,965	12,828,399	97.1	10	46,609	2	13,744	20.0
CALAVERAS	43,712	52,121,734	50,992,201	97.8	3,703	1,113,462	1,031,433	92.6	0	0	0	0	----
LOS ANGELES	2,362,444	8,478,194,297	8,291,243,855	97.8	334,638	551,266,637	492,067,357	89.3	634	14,910,047	51	529,097	8.0
SUTTER	30,159	60,063,779	58,737,816	97.8	6,703	5,747,692	5,462,799	95.0	----	----	----	----	----
FRESNO	264,091	468,858,333	458,437,693	97.8	35,072	31,231,302	29,141,338	93.3	33	88,046	----	----	----
SIERRA	3,929	4,777,386	4,670,070	97.8	1,376	329,622	312,777	94.9	2	5,139	----	----	----
RIVERSIDE	736,555	1,536,936,984	1,500,303,273	97.6	52,722	56,479,231	52,182,341	92.4	----	----	----	----	----
MENDOCINO	54,532	73,531,025	71,720,059	97.5	6,559	2,788,895	2,594,578	93.0	0	0	0	0	----
ALPINE	2,285	4,876,538	4,753,710	97.5	269	258,363	256,499	99.3	0	0	0	0	----
STANISLAUS	145,816	286,449,348	279,179,491	97.5	15,381	15,475,647	14,635,326	94.6	7	20,368	4	56	57.1
TUOLUMNE	37,689	44,441,853	43,273,390	97.4	4,043	1,466,500	1,417,594	96.7	4	6,565	0	0	0.0
KERN	354,770	581,097,058	565,236,784	97.3	23,727	27,610,274	27,046,781	98.0	138	1,325,717	18	992,085	13.0
SISKIYOU	46,627	30,019,247	29,197,243	97.3	2,620	2,047,944	2,019,308	98.6	7	78,409	1	56	14.3
MARIPOSA	13,808	13,594,840	13,217,523	97.2	1,401	464,682	433,368	93.3	0	0	0	0	----
SAN JOAQUIN	188,863	447,501,695	435,053,705	97.2	25,310	25,163,777	23,611,961	93.8	----	----	----	----	----
TEHAMA	37,520	30,754,079	29,880,883	97.2	3,244	1,219,713	1,176,134	96.4	0	0	0	0	----
SAN BERNARDINO	711,264	1,225,278,142	1,190,186,825	97.1	40,882	84,185,244	80,860,546	96.1	143	1,851,515	80	531,578	55.9
YUBA	23,251	28,725,985	27,893,319	97.1	2,630	2,041,249	1,959,951	96.0	6	16,602	0	0	0.0
TULARE	130,725	180,685,983	175,432,652	97.1	17,792	10,671,185	9,882,660	92.6	15	89,419	2	3,303	13.3
HUMBOLDT	78,093	74,246,691	71,990,155	97.0	9,558	4,342,583	3,976,612	91.6	8	7,500	----	----	----
DEL NORTE	15,292	11,200,530	10,857,161	96.9	1,171	474,921	464,371	97.8	1	113	1	113	100.0
COLUSA	12,657	18,697,478	18,067,457	96.6	1,506	1,293,973	1,273,578	98.4	1	816	0	0	0.0
TRINITY	12,056	7,847,883	7,576,076	96.5	1,570	372,515	341,010	91.5	----	----	----	----	----
MERCED	70,696	124,233,289	119,254,910	96.0	7,542	8,249,870	7,724,179	93.6	----	----	----	----	----
MODOC	27,671	8,912,351	8,543,803	95.9	929	218,886	201,766	92.2	0	0	0	0	----
MADERA	50,299	77,688,158	74,180,590	95.5	6,087	3,351,516	2,959,064	88.3	0	0	0	0	----
LAKE	62,873	48,691,674	46,043,384	94.6	7,980	1,340,395	1,195,448	89.2	----	----	----	----	----
AMADOR	21,893	31,629,664	29,828,042	94.3	2,839	937,815	913,568	97.4	11	36,935	2	7,725	18.2
SONOMA	170,367	579,517,394	541,933,936	93.5	22,494	26,002,313	25,062,599	96.4	16	14,875	8	2,000	50.0
LASSEN	22,510	16,319,299	15,094,030	92.5	1,031	1,048,931	1,004,002	95.7	0	0	0	0	----
TOTALS	11,348,254	33,771,536,394	33,134,463,533	97.6	1,373,777	2,046,273,283	1,922,839,672	95.3	2,430	49,515,066	606	16,514,242	26.8

State Controller's Office 08/04

Attachment I.2

County of Santa Clara

Tax Collector

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1767
(408) 808-7959 FAX (408) 294-3829

MEMORANDUM

DATE: March 3, 2005

TO: Harvey Rose
Attn: Paul Murphy

FROM: Martha L. Williams
Tax Collector
M. Williams

SUBJECT: ACCOMPLISHMENTS OF THE TAX COLLECTOR'S OFFICE

The Tax Collector's Office faced several challenges during the last year. Of primary significance was the absence of the Tax Collector. Despite this absence, the Office was able to issue all property tax bills in a timely manner, collect secured and unsecured taxes and successfully close the property tax roll. Additional noteworthy management accomplishments are described below:

- The Tax Collector's Office, together with the Controller's Office, is in the process of replacing our 40 year old legacy COBOL mainframe tax collection and apportionment system with a modern integrated system that will encompass the functions of tax collection and all apportionment functions. The new Tax Collection and Apportionment System (TCAS) will ensure the accuracy of funds apportioned and improve the efficiency of collections while providing a higher level of public service.

- Last year the Tax Collector's Office, in a joint effort with the Clerk-Recorder's Office, implemented a process whereby tax liens are recorded electronically. As a result, over 80% of the tax liens recorded do not require manual processing.

- The Office continues to provide public service and tax information through our website and IVR. Our website offers information relating to tax amounts, values, special assessments, tax rate areas and payment history. On our busiest day, December 10th, over 4,000 people accessed our website visiting over 14,000 web pages.

- For the past two years, the Office has accepted tax payments by credit card through our website. Last year, the Office began accepting e–check payments via our website. Taxpayers have expressed their appreciation of these alternate methods of payment. On December 10, 2004, over 1,400 taxpayers made their tax payment either by credit card or e-check.

- Due to system upgrades performed by the Systems Division of our Office, the daily processed payments are reflected on the Internet, IVR and the Tax Information System (TIS) each evening. Previously, a delay of 24 hours to three weeks, depending on the type of payment and time of year, could occur as the Office waited for mainframe processing.

- The Office has participated in the Property Tax Administration Program (PTAP) the last several years. Our participation in the PTAP program has resulted in three innovative collection programs that have realized millions of dollars in revenue or accelerated collections that have benefited the County and other taxing jurisdictions.

Section 1. Depositing All Payments Received

- **In accordance with current practices of the Tax Collector's Office, payments without stubs, partial payments for secured property taxes, tax and penalty payments with an appeal, and other types of payments are not accepted or deposited when received. All of these payments are either returned to the taxpayer or held for an indeterminate period of time, until staff are able to research the tax payments and related tax bills.**

- **A desk audit conducted during a 24-hour period in late February 2005 identified 2,691 checks accounting for approximately $6.6 million of property tax payments that had not been deposited. More than 80 percent of the checks were received by the Tax Collector's Office during the month of February, but checks received at least as far back as August 2004 were found. Furthermore, approximately 57 percent, or $3.7 million, of all checks had been in the office for more than five business days.**

- **The practice of holding checks, rather than depositing them immediately upon receipt, creates an internal control risk that checks could be misplaced, lost or stolen, generates unnecessary workload from handling checks, extends payment processing timelines, and delays revenue deposits, resulting in lost interest income for taxing entities.**

- **By depositing all payments on the day of receipt and establishing a suspense account for payments that cannot be processed immediately, no interest income would be lost, internal control over checks would be improved, and partial payments could be accepted. The immediate deposit of property tax revenues is permitted by the Revenue and Taxation Code, is consistent with the business practices of other major counties and would result in additional interest income of as much as $800,000 annually, including $100,000 for the County General Fund.**

Background

In FY 2003-04, the Tax Collector's Office successfully collected $2.41 billion, or 98.4 percent, of all secured property taxes charged.[1] Similarly, on the unsecured roll, the office collected nearly $255 million, or 95.8 percent, of all taxes charged for FY 2003-04.[2] These high collection rates have been achieved, in part, by the implementation of a new remittance processing system, BancTec, and a mailing opening system, OPEX. However, while both systems have improved the efficiency of opening and processing property tax payments, so that they are deposited more quickly, the Tax Collector's Office continues to hold millions of dollars of property tax payments daily until staff are able to research the payments and related tax bills. Depending on why payments are held, they could be returned to the taxpayer or eventually processed. For example, if a

[1] Secured taxes are levied on real property.

[2] Unsecured taxes are levied against property that is not deemed secured, such as boats, airplanes or business equipment.

secured property tax payment is either less than or a duplicate of the amount due, then the Tax Collector returns the payment to the taxpayer. An overpayment on secured property, on the other hand, is either applied to outstanding bills or adjusted to match the amount due. Any payment that arrives without a stub also must be held until the payment can be matched with a tax bill and/or a duplicate stub can be ordered from the Information Services Department at Berger Drive.

Since September 13, 2002, the Tax Collector's Office has been exempt from particular requirements of the Santa Clara County Controller-Treasurer's Cash Handling Policies and Procedures. Section II (B)(3) states, "All collections must be deposited timely and intact; in general no later than the next business day. Large amounts of cash shall not be allowed to accumulate." In the exemption request, the former Tax Collector stated that the office "...makes every effort to deposit payments within two days of receipt" but noted there are circumstances that delay deposit, as already mentioned. Furthermore, Section IV (B)(1)(b) and (c) require that "aggregate collections exceeding $100,000 are to be deposited intact no later than the day after receipt" and "all other collections are to be deposited as soon as practical but within five (5) days of receipt." In response, the former Tax Collector again acknowledged that the office does not necessarily deposit collections right away. The former Tax Collector explained in the exemption documentation that depositing payments takes up to three days in non-peak season and seven days in peak season, depending on the complexity of the payments being processed and other high-priority tasks. However, as we will illustrate based on a 24-hour desk audit of checks in the office, the Tax Collector's Office is failing to deposit many payments within seven days even in non-peak season. Rather, thousands of checks representing millions of dollars remain in the office for days, weeks and months.

The practice of holding checks, rather than depositing them immediately upon receipt, is dangerous for several reasons. Foremost, the practice creates an internal control risk that checks could be misplaced, lost or stolen. Held checks move between staff and are sometimes manually recorded in simple logs but are never tracked as to who wrote the check and for what amount. If checks were to be misplaced, lost or stolen, it would be the taxpayer's word against the County's that the payment was submitted. Since taxes are a lien on secured property or on the taxpayer, in the case of unsecured property, this practice protects the County's interest but not the taxpayer's. Furthermore, the need to count, log and distribute checks that are held generates additional and unnecessary work. Checks that are not deposited immediately also extend payment processing timelines, thereby harming the courteous customer service image that the Tax Collector wishes to project. For example, some taxpayers may grow concerned about why their checks are not being cashed, and other taxpayers may become frustrated that their checks were not cashed before becoming stale dated or being assessed late penalties. Finally, by failing to deposit checks immediately when received, the Tax Collector fails to earn interest income that could be used by Santa Clara County and other taxing entities.

The Tax Collector has applied for funding to implement a new Tax Collection and Apportionment System (TCAS) over the next three years that should help to deposit many property tax payments more quickly. For instance, Tax Collector staff will be able to print duplicate bills on demand in the office and process all payments through

BancTec, regardless of whether the payment has a stub, by creating a virtual stub. TCAS may also allow the Tax Collector's Office to deposit all checks that they scan into BancTec through a process known as Check 21. (Refer to Section 7 for more information on Check 21.) However, the volume of checks presently held daily indicates the Tax Collector should take additional steps to deposit payments more timely now in advance of the new TCAS application being fully operational. In the discussion that follows, we will address the volume and type of payments being held, how other counties are depositing their property tax payments and recommendations for Santa Clara County's Tax Collector.

Desk Audit Identifies $6.6 Million of Undeposited Checks

During a 24-hour period in late February 2005, Management Audit Division staff conducted a desk audit to quantify the number and amount of checks held daily by the Tax Collector's Office. As part of our review, we visited each unit within the office and logged all checks, except those received and deposited that day. The information collected included the date that the check was received by the office, date that the check was written by the taxpayer, amount written on the check by the taxpayer, type of property being paid and reason that the check was held. When a check or its stub was not date stamped to indicate when they were received, we used the date that the payment was postmarked or check was written in order to estimate its arrival in the office. Based on the data compiled, we identified 2,691 checks accounting for approximately $6.6 million of property tax payments that had not been deposited. As shown in Table 1.1, more than 80 percent of the checks were received by the Tax Collector's Office during the month of February, but checks received at least as far back as August 2004 were found. Furthermore, at least 57 percent, or $3.7 million, of all checks had been in the office for more than five business days, exceeding the limit set forth in the Controller-Treasurer's Cash Handling Policy and Procedures.

Table 1.1

Summary of Checks Held by the Tax Collector's Office on February 24-25, 2005

Month Check Received	Number of Checks	Number as Percent of Total	Amount of Checks
Feb-05	2,166	80.5%	$5,332,171
Jan-05	353	13.1%	$821,023
Dec-04	127	4.7%	$310,611
Nov-04	9	0.3%	$16,943
Oct-04	13	0.5%	$52,251
Sep-04	17	0.6%	$48,655
Aug-04 or later	4	0.1%	$7,048
Unknown	2	0.1%	$3,609
Total	**2,691**	**100.0%**	**$6,592,311**

Nearly all checks that we identified represented secured property tax payments and were being held in Payment Processing. Table 1.2 stratifies the checks by the unit where they were found and the type of property being paid. The limited number of payments on unsecured property can be attributed to the peak season for receiving these payments having passed, the ability to collect partial payments on the unsecured roll and the requirement that staff deposit these payments within three days of receipt.

Table 1.2

Checks Held in the Tax Collector's Office by Unit and Property Type

	Secured	Unsecured	Both	Racehorse	Unknown	Total	Percent of Total
Payment Processing	1,335	38	-	-	4	**1,377**	51.2%
Accounting	998	4	1	-	9	**1,012**	37.6%
Administration	129	-	-	2	-	**131**	4.9%
Tax Information	110	-	-	-	4	**114**	4.2%
Unsecured Collection	3	51	-	-	3	**57**	2.1%
Tax Roll Control	-	-	-	-	-	-	0.0%
Total	**2,575**	**93**	**1**	**2**	**20**	**2,691**	100.0%

On the following page, Table 1.3 provides a list of the reasons that we identified for Tax Collector staff holding checks. The most common reason was that they were missing a stub and could not be processed through BancTec. While Tax Collector staff can print duplicate stubs for secured property tax payments in the office, they are typically printed for only large payments. As a result, when most payments arrive without a stub, Tax Collector staff request duplicate bills from the Information Services Department (ISD) at Berger Drive before the payments are run through BancTec. There is at least a two-day processing delay when this occurs. For example, for payments that arrive without a stub on a Monday, Tax Collector staff may order duplicate bills that day. Then, ISD requires a day to produce and deliver the duplicate bills. After receiving the duplicate bills, Tax Collector staff tear off the appropriate stubs and match them up with the checks, so processing the checks through BancTec may not occur until Wednesday. In addition, payments that arrive without a stub and cannot be matched with secured property are not run through BancTec but rather returned to taxpayers.

Under the current system, the Tax Collector's Office is also prevented from processing payments for current year secured taxes that are not equal to the amount due, including taxes, penalties, interest and costs. After scanning checks and stubs, BancTec compares the amount paid and amount due to determine whether they match. If not, the payments are rejected by BancTec and distributed to staff to research and resubmit for processing or return to taxpayers. Payments that do not match could be duplicates of those already processed, either short or over the amount due or have other problems that need to be researched. For example, if a payment is postmarked after the delinquency date, but the taxpayer does not pay the 10 percent penalty and $20 cost with the tax, the payment would be rejected by BancTec and returned to the taxpayer, and the taxpayer would be asked to resubmit payment in full.[3] As a group, these payments — identified as BancTec rejects, duplicate payments, partial payments, overpayments and trouble payments in Table 1.3 — represent the second largest number, or 31 percent, of checks found in the Tax Collector's Office.

Table 1.3

Reasons for Holding Checks in the Tax Collector's Office

	Secured	Unsecured	Both	Racehorse	Unknown	Total	Percent of Total
Missing Stub	1,252	-	-	-	9	**1,261**	46.9%
Unknown	189	80	-	2	4	**275**	10.2%
Duplicate Payment	270	-	-	-	-	**270**	10.0%
BancTec Reject	233	-	-	-	-	**233**	8.7%
Partial Payment	189	-	-	-	-	**189**	7.0%
Penalty Appeal	187	-	-	-	-	**187**	6.9%
Trouble Payment	95	5	1	-	3	**104**	3.9%
Paid After Deposit	51	-	-	-	-	**51**	1.9%
Overpayment	48	-	-	-	-	**48**	1.8%
Redemption	40	-	-	-	-	**40**	1.5%
Unopened Mail	21	-	-	-	4	**25**	0.9%
Lien Fee	-	8	-	-	-	**8**	0.3%
Total	**2,575**	**93**	**1**	**2**	**20**	**2,691**	**100.0%**

Note: BancTec rejects consist of duplicate payments, partial payments, overpayments or trouble payments once distributed and determined by staff.

Similar to current year secured taxes, redemption payments, which redeem tax-defaulted secured property, also must be received in full before they can be processed. However, a taxpayer can receive multiple bills for their total tax liability in redemption. When this occurs and the taxpayer makes multiple payments, Tax Collector staff must accumulate all of the payments and manually determine whether the total amount of the payments equals the total amount of the tax liability before the payments are processed. If the payments differ from the total tax liability, they are sent back to the taxpayer with a letter indicating the actual amount due. At the time we audited the Tax Collector's Office, only 1.5 percent of all held checks related to redemption payments.

[3] During our fieldwork, we found one temporary exception to this practice. For a limited number of delinquent tax bills sent to taxpayers in early 2005, the total amount due in the lower right hand corner of the bill understated the actual amount due by $20. This error occurred because the recently enacted $20 collection fee on late first installments was added to all components of the tax bill except the total amount due. The Tax Collector's Office has corrected this error on all future tax bills and processed the payments that were $20 short as full payments, so as not to penalize the taxpayers for the error in the printed bill. The Tax Collector provided an estimate that the error would result in approximately $6,000 (300 * $20) in lost revenue on a one-time basis. This loss will be incurred completely by the County, because the $20 fee is a "county-only" charge.

A final major reason for holding checks relates to penalty appeals. When taxpayers appeal a penalty on a property tax payment, they are required to submit separate checks for the tax and penalty before their appeal is considered. During some of these instances, the two checks are held by the Tax Collector until the appeal decision has been made. If the penalty is waived, the penalty check is returned to the taxpayer and the tax check is deposited. Conversely, if the waiver is denied, both checks are deposited. As shown in Table 1.3, we found 187 penalty appeal-related checks at the time of our review. Of this amount, 129 checks, or 69 percent, were related to cases upon which a decision had not yet been reached by the Tax Collector. (Section 6 has a more detailed discussion on penalty appeals.)

By failing to deposit all payments upon receipt, we estimate that the taxing entities are losing as much as $800,000 annually, including $100,000 for the County General Fund, in interest income.[4]

Deposit Practices in Other California Counties

As part of the audit, we surveyed other California counties to find out whether they also hold checks for property taxes for the reasons identified in Santa Clara County. Based on the results, three of six other counties that responded to our survey deposit payments upon receipt under almost all circumstances. In fact, Los Angeles County stated, "All payments are processed within 24 hours of receipt." A summary of the responses from the three counties is provided below:

- Los Angeles County applies payments without stubs to the appropriate property through a "screen scrape" process in the remittance processing system that creates an electronic or virtual stub. Orange and San Mateo Counties, on the other hand, are able to print duplicate stubs in the office for the immediate processing of all payments.
- San Mateo County uses a payment stub plus a refund stub to expedite the processing of overpayments but refunds duplicate payments after they have been processed. In comparison, Orange and Los Angeles Counties process and then refund both duplicate payments and overpayments.
- Los Angeles County deposits payments received for which a property cannot be identified into a trust system that generates a letter and a copy of the payment, which are sent to the taxpayer asking for instructions on how to apply or refund the payment.
- While San Mateo and Orange Counties do not accept partial payments, Orange County does deposit partial payments into a holding account and sends a letter

[4] To project the amount of interest lost annually, we first projected the amount held daily each month, as a proportion of the total deposit. Within each month, we then multiplied the amount held daily by the average daily percentage yield, using an average annual percentage yield of 5 percent, and the number of days in the month. This gave us the amount of interest lost monthly, which we summed to arrive at the amount of interest lost annually. The average annual percentage yield of 5 percent is based on an analysis of commingled fund interest earnings over 10 years.

requesting that the taxpayer submit the balance within a given time (see Attachment 1.1). If the remaining amount due is not received, then Orange County refunds the payment and the taxes remain unpaid.

- Both Los Angeles and Orange counties deposit, rather than hold, payments for taxes and penalties while penalty appeals are considered.

The immediate deposit of property tax payments is clearly consistent with the business practices of other major counties. Furthermore, Revenue and Taxation Code Section 2783 allows counties up to 60 days to refund a duplicate payment for property taxes without having to include interest. Accounting staff in the Santa Clara County Tax Collector's Office stated that they are able to issue refunds for duplicate payments, in the case they are deposited rather than returned, within the 60 days. Counties are also required to notify taxpayers about overpayments, per Revenue and Taxation Code Section 2635. After receiving the notice, taxpayers must apply for the refund within 30 days in order to receive a refund with interest, if more than $10, or a year in order to receive a refund for just the overpayment.[5]

Treatment of Partial Payments

Many California counties, including Santa Clara County, that do not accept partial payments use the Teeter method of apportioning current year secured property taxes. Under this method, the County gradually apportions the full value of the secured roll to taxing entities, including cities, school districts and special districts, regardless of whether taxes on these properties are collected (see Attachment 1.2). In return, the County General Fund receives the full amount of any penalties and interest, in addition to costs, paid for with delinquent taxes. When paid, penalties and interest are deposited into a Tax Loss Reserve Fund (TLRF), which covers the loss of any uncollected taxes, and then a portion of TLRF monies are transferred to the County General Fund at the end of each fiscal year.[6] Counties that do not use the Teeter method apportion only taxes, penalties and interest that are collected.

As the only county surveyed that does not utilize the Teeter method, Los Angeles is also the only county that accepts partial payments for secured property taxes. Los Angeles County's Board of Supervisors approved this policy in 1997, according to the requirements of Revenue and Taxation Code Sections 2636 and 2708:

> Notwithstanding any other provision of law, in the case of a deficiency in the payment of taxes due and payable pursuant to this chapter, the tax collector, with the approval of the board of supervisors, may accept such partial payment from the taxpayer. Such partial payments are to be applied first to all penalties, interest and costs with the balance being applied to the taxes due. The difference between the amount paid by the taxpayer and the amount due shall be treated as a delinquent tax in the same manner as any other delinquent tax.

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[5] Revenue and Taxation Code Sections 5151 (a) and 5097 (a)(2).

[6] Santa Clara County currently maintains a TLRF balance of 25 percent of the total delinquent secured taxes and assessments for participating entities in the County, per Revenue and Taxation Code Section 4703.2 (c).

Therefore, if a payment is submitted before the delinquency date in Los Angeles County, the payment is applied to the tax bill, and penalties are calculated on any remaining balance. Whereas, if a payment is submitted after the delinquency date, then the payment is applied first to fees, then to penalties and interest, and finally to taxes. To collect any remaining balance, if the amount due is more than $10, the County sends notices to taxpayers after each installment. Los Angeles County also apportions payments to taxing entities as they are received.

Comparing Partial Payments in Los Angeles and Santa Clara

To understand the different treatment of partial payments in Santa Clara County and Los Angeles County, we provide an example of the same partial payment being submitted before the April 10th delinquency deadline in each of these jurisdictions. As shown in Table 1.4, the amount of tax due is $2,500, but the taxpayer sends in a payment of $2,000. Under the Los Angeles scenario, the payment is applied to the tax charge, and penalties and costs accrue on the remaining tax due. Conversely, in Santa Clara County, the payment is returned to the taxpayer with a notice advising the taxpayer to pay the total amount due within 10 days. If the taxpayer fails to submit the full payment of $2,500 on time after the 10-day notice, penalties and costs accrue on the full amount of the tax bill.[7] As a result, the Santa Clara taxpayer ends up paying an additional $200 in penalties — four times greater than the Los Angeles taxpayer. Furthermore, if the remaining balance is not paid, taxpayers in both counties will accrue interest on the remaining tax. With $500 and $2,500 remaining in Los Angeles and Santa Clara, respectively, the taxpayer in Santa Clara County ends up paying much more in interest.

Table 1.4

Example #1: Taxpayer Submits a Partial Payment On Time

	Partial Payment Accepted in Los Angeles	**Partial Payment Rejected in Santa Clara**
Tax Due with 2nd Installment	$2,500	$2,500
Amount Due	**$2,500**	**$2,500**
Amount Paid by Deadline	**$2,000**	**$2,000**
Amount Applied to Tax	$2,000	$0
Amount Returned to Taxpayer	$0	$2,000
Remaining Tax Due	**$500**	**$2,500**
Delinquent Penalty (10%)	$50	$250
Collection Fee	$10	$20
Balance Due	**$560**	**$2,770**
Total Tax Liability	**$2,560**	**$2,770**

[7] Taxpayers can appeal to the Tax Collector to reverse penalties and costs, which is discussed in Section 6.

Of course, not all taxpayers submit a property tax payment by the delinquency deadline. Given that a payment is submitted late in both counties, the treatment of these payments also differs. Table 1.5 illustrates this second example. The taxpayer in each county owes $2,500 and submits a payment for this amount after the April 10th delinquency deadline but overlooks including the delinquent penalty and collection fee. In Los Angeles County, the taxpayer's payment is first applied to penalties and costs and the remaining $2,240 is applied to the tax. This leaves a balance of $260, which will accrue interest if not paid. In comparison, the Santa Clara taxpayer's payment is not applied to penalties, costs or taxes but is returned to the taxpayer. Although the delinquent penalty is equal in both counties due to the late payment, the Santa Clara taxpayer still owes a balance of $2,770, of which the original tax amount of $2,500 will accrue interest if the taxpayer does not resubmit payment in full and on time after the 10-day notice. Once again, the Santa Clara taxpayer is worse off.

Table 1.5

Example #2: Taxpayer Submits a Partial Payment Late

	Partial Payment Accepted in Los Angeles	Partial Payment Rejected in Santa Clara
Tax Due with 2nd Installment	$2,500	$2,500
Delinquent Penalty (10%)	$250	$250
Collection Fee	$10	$20
Amount Due	**$2,760**	**$2,770**
Amount Paid after Deadline	**$2,500**	**$2,500**
Amount Applied to Penalties & Costs	$260	$0
Amount Applied to Tax	$2,240	$0
Amount Returned to Taxpayer	$0	$2,500
Balance Due	**$260**	**$2,770**
Total Tax Liability	**$2,760**	**$2,770**

Finally, both examples depict how Santa Clara County delays the collection and deposit of secured property taxes by rejecting partial payments. Such a delay directly affects the resources available to fund County services and to distribute to other taxing entities, as shown in the current year secured property tax pay-out schedule provided as Attachment 1.2.

The Impact of Accepting Partial Payments

A policy of not accepting partial payments thus provides a disservice to taxpayers because it subjects them to greater amounts of tax liability. However, to change the current system to accept partial payments, dozens of Tax Collector computer programs would have to be opened, reprogrammed and tested, diverting staff from other activities. The Tax Collector's Office strongly opposes making any changes to the current system, since staff are in the process of creating a new system that would allow the County to accept partial payments. In the meantime, as shown in Orange County, partial payments could be deposited into a suspense account until the entire amount due is collected and posted to the taxpayer's account.

In addition, if Santa Clara County accepts partial payments on the secured roll, the amount of penalties and interest paid into the Tax Loss Reserve Fund (TLRF) and eventually transferred to the General Fund would decrease. Staff in the Offices of the Controller-Treasurer and Tax Collector indicated that the potential decrease in penalty revenue could deter the County from accepting partial payments. Table 1.6 shows that an average of $11.3 million has been deposited annually into the TLRF since FY 1994-95. Furthermore, in FY 2003-04, receipts from penalties and interest totaled $11.8 million — a 4.5 percent decrease from the previous year.

Table 1.6

Penalties and Interest Deposited into the Tax Loss Reserve Fund Annually Between FY 1994-95 and FY 2003-04

Fiscal Year	Total Penalties	Increase (Decrease)
1994-95	$5,460,428	
1995-96	$21,327,211	290.6%
1996-97	$9,386,608	-56.0%
1997-98	$6,809,413	-27.5%
1998-99	$12,282,628	80.4%
1999-00	$10,500,507	-14.5%
2000-01	$11,404,676	8.6%
2001-02	$11,925,317	4.6%
2002-03	$12,403,320	4.0%
2003-04	$11,848,609	-4.5%
Average	**$11,334,872**	

Source: Controller-Treasurer's Office

Because the Tax Collector lacks a record of how many partial payments are received annually, how much money they represent and how much time elapses before they are paid in full, we cannot project with accuracy the decrease in penalty and interest revenue. However, based on our 24-hour desk audit, partial payments accounted for only 7.0 percent of the held checks, amounting to approximately $530,000 in secured property tax payments. Most of these payments included all taxes but were short the 10 percent penalty and $20 collection fee, because they were submitted after the delinquency date. As a result, the County would receive penalties and costs totaling as much as $57,000 on the delinquent tax, regardless of whether the partial payments were accepted. This suggests that accepting partial payments would not have a significant impact on the TLRF but would accelerate the collection of secured property tax payments, thus reducing the County's risk of not collecting all taxes and improving customer service within the Tax Collector's Office.

Tax Collector Should Deposit All Payments

The Tax Collector is charged with the timely collection of property tax payments. While this is accomplished for the majority of payments, there are still thousands of checks amounting to millions of dollars that are being held for an indeterminate period of time until staff are able to research the tax payments and related tax bills. Because of the various risks associated with this practice, the Tax Collector should deposit all payments upon receipt, as outlined by Section IV of the Controller-Treasurer's Cash Handling Policy and Procedures. In particular, this document requires departments to deposit individual receipts greater than $250,000 on the day of receipt, aggregate collections exceeding $100,000 no later than the day after receipt, and all other collections within five days of receipt. The Tax Collector could speed up the processing of almost half of the payments being held by reproducing stubs in the office, rather than ordering them through the Information Services Department. Tax Collector staff informed us that this is an immediate goal, so we encourage the office to follow through with its implementation as soon as possible.

Prior to depositing all payments, the Controller-Treasurer should establish a suspense account for depositing payments that cannot be processed immediately. The Tax Collector already has a trust fund (Fund 1485) where similar monies, such as property tax prepayments and refunds from reduced assessments, are deposited. (Refer to Section 2 for more information on trust funds.) However, because many uses already exist for this fund, we believe the Tax Collector needs a separate account to deposit and track all payments that need additional work before they can be processed. With a distinct suspense account, staff could force the deposit of all problem payments after running them through BancTec, which already scans both sides of a check and provides a complete listing of all checks rejected by the system. The list, along with any materials submitted with the checks, could then be distributed to staff in order to resolve the problems and apply payments or issue refunds.

Because the Tax Collector's primary role is collecting property tax revenue, not maximizing penalties and interest on delinquent taxes, the Board of Supervisors should consider whether to accept partial payments for secured property taxes, as allowed by State law. Such a policy discussion is needed in order to weigh the impact of such a change on taxpayers and the County. As we have already shown, Santa Clara taxpayers, who may fail to submit full payments on time after the 10-day notice, may be unduly penalized with the County's current policy of refusing partial payments. The Board also needs to consider the rights of taxpayers to have their payments accepted by the County. In considering the partial payment issue, the Board should seek the advice of the Finance Director and request estimates of any impacts from the Offices of the Tax Collector and Controller-Treasurer.

In implementing these changes, the Tax Collector would incur an additional cost to refund duplicate payments or overpayments that cannot be applied to future installments or outstanding bills. We do not believe that notifying taxpayers of any remaining balance due after submitting a partial payment would represent an additional cost, since Tax Collector staff already perform this function to return partial payments with a letter notifying taxpayers that they must submit payment in full. The

Tax Collector's Office currently incurs a cost of approximately $3 to issue a refund, which is a staff-intensive process that could be streamlined with the new Tax Collection and Apportionment System. Although the Tax Collector's Office does not track how many duplicate payments or overpayments are received annually, these payments represented only 318, or 11.8 percent, of all checks held during our 24-hour desk audit in late February 2005, as shown in Table 1.3 (270 duplicates and 48 overpayments). Based on the average number of days these payments were held, at the time of our review, depositing and refunding these payments would be more cost effective than holding and returning them. In effect, refund costs would be offset by additional interest earned, amounting to as much as $800,000 annually, including $100,000 for the County General Fund.

CONCLUSION

The Tax Collector's Office is currently not accepting or depositing thousands of checks amounting to millions of dollars upon receipt. These payments, including payments without stubs, partial payments for secured property taxes, tax and penalty payments with an appeal, are either returned to the taxpayer or held for an indeterminate period of time, until staff are able to research the tax payments and related tax bills. However, this practice increases the risk that checks could be misplaced, lost or stolen, generates unnecessary workload from handling checks, extends payment processing timelines, and delays revenue deposits, resulting in lost interest income for taxing entities. By depositing all payments on the day of receipt and establishing a suspense account for payments that cannot be processed immediately, no interest income would be lost, internal control over checks would be improved, and partial payments could be accepted. The immediate deposit of property tax revenues is permitted by the Revenue and Taxation Code, is consistent with the business practices of other major counties and would result in additional interest income of as much as $800,000 annually, including $100,000 for the County General Fund.

RECOMMENDATIONS

The Tax Collector should:

1.1 Deposit all property tax payments upon receipt, as outlined in Section IV of the Controller-Treasurer's Cash Handling Policy and Procedures. (Priority 1)

1.2 Implement a method of printing duplicate stubs for property tax payments in the office. (Priority 1)

The Controller-Treasurer should:

1.3 Establish a suspense account for depositing property tax payments that cannot be processed immediately. (Priority 1)

The Board of Supervisors should:

1.4 Consider whether to accept partial payments for secured property taxes, as allowed by Revenue and Taxation Code Section 2636 and 2708. (Priority 1)

COSTS AND BENEFITS

By depositing all property tax payments upon receipt, taxing entities within Santa Clara County would realize additional interest income of as much as $800,000 annually, including $100,000 for the County General Fund, minus any additional costs to issue refunds. Such a change would also improve internal control over checks and allow the County to accept partial payments. If the Board decided to accept partial payments for secured property taxes, then the collection of taxes from some taxpayers would accelerate, while the amount of penalties and interest earned on delinquent taxes could decrease. Together, these changes would have a positive impact by reducing the County's risk of not collecting all taxes on secured property and improving customer service within the Tax Collector's Office.

COMMENTS ON THE TAX COLLECTOR WRITTEN RESPONSE

In the written response to Section 1, the Tax Collector disagrees that the office should deposit all property tax payments upon receipt as required by the Controller-Treasurer's Cash Handling Policy and Procedures, and instead provides an alternate solution to justify the Department's exemption from that requirement. As part of this solution, the Tax Collector states, "In an effort to minimize the risk of checks being misplaced, lost or stolen, the Department will seek the advice of Internal Audit in determining possible improved methods of securing 'held' checks in the office." Should the Department be allowed to implement an alternate solution to immediately depositing all checks when received, we recommend that the Department be required to log all checks received daily that are not immediately deposited, but are held in the office for research. The daily log of undeposited checks should include the name of the taxpayer and amount and date of the payment. Once the undeposited checks are distributed throughout the office, the Department should also be required to track the assignment of these checks by individual within each division or unit. Currently, the Department has little internal control over thousands of checks that amount to millions of dollars for the reasons outlined below:

- The Department does not know how many checks are received daily or the total amount of the checks received. Therefore, it is impossible for the Department to know if one check or 100 checks are missing on a day-to-day basis. Other county tax collectors have experienced millions of dollars of losses due to staff depositing checks in personal accounts.

- Held checks move between staff within the office and are never tracked as to which staff member currently has a given check or how long a check remains in the office without being deposited. More than 150 checks had been in the office for over two months, and some checks remained undeposited after six months.

- Many of the checks are left on desks and tables during business hours and stored in desks and cabinets after business hours. While staff lock the desks and cabinets in which the checks are stored, the keys are not secured but rather left in desk drawers.

Internal Audit previously identified the Department's lack of control over these checks in its Custody Audit of the Tax Collector's Office dated June 30, 2001. Based on our findings, the control risk continues to be a problem and should be immediately addressed. Furthermore, it is unknown as to why the County's financial auditor has not reported this internal control weakness.

Attachment 1.1

OFFICE OF THE ORANGE COUNTY TAX COLLECTOR
12 CIVIC CENTER PLAZA, G58
P.O. BOX 1438
SANTA ANA, CA 92702
(714) 834-3411
DATE 02/28/05

BROUWERS, CATHERINE
306 6TH ST
HUNTINGTON BEACH CA
92648-4602

RE: PARCEL NUMBER 024-142-20.00 BATCH # 0026 SEQ # 00065 PAY DATE 02/25/05

DEAR TAXPAYER:
THANK YOU FOR YOUR RECENT PROPERTY TAX PAYMENT. UNFORTUNATELY, WE ARE UNABLE TO PROCESS THE PAYMENT AS IT WAS NOT ENOUGH TO COVER THE AMOUNT DUE. PLEASE MAIL $280.09 TO MAKE UP THE DIFFERENCE. IF THE REQUESTED AMOUNT IS NOT PAID BY 03/18/05 WE WILL REFUND THE PAYMENT AND THE TAXES WILL REMAIN UNPAID. ALSO, IF YOU DID NOT REMIT THE ABOVE REFERENCED PAYMENT, PLEASE FORWARD THIS LETTER TO THE APPROPRIATE PERSON OR CONTACT THIS OFFICE AT (714) 834-3411. YOU MAY ALSO CONTACT US BY E-MAIL AT TTCINFO@TTC.OCGOV.COM

PLEASE MAIL THE PAYMENT STUB BELOW AND YOUR PAYMENT IN THE ENCLOSED ENVELOPE. IF THE BALANCE DUE HAS BEEN REMITTED, PLEASE DISREGARD THIS LETTER.

DETACH THIS STUB AND RETURN WITH PAYMENT

SEC 2004 02414220 00 SPMT

PARCEL NUMBER: 024-142-20.00
TAX YEAR: 2004

INSTALLMENT: 1

AMOUNT DUE BY 03/18/05 :
$ 280.09

MAKE CHECK PAYABLE TO:

ORANGE COUNTY TAX COLLECTOR
P.O. BOX 1438
SANTA ANA CA 92702

NOTE: THERE WILL BE A $30.00 FEE FOR EACH CHECK RETURNED BY THE BANK FOR ANY REASON

0102414220000000200401031805000002800900000000000000000000000000000006

Attachment 1.2

Current Secured Property Tax Pay-Out Schedule

November 15	The percentage of total levy collected as of this date shall be determined. Each account shall receive a sum equal to such percentage applied to its share of the 1- percent levy.
November 30	The percentage of total levy collected as of this date shall be determined. Each account shall receive a sum equal to such percentage applied to its share of the 1-percent levy, less prior apportionments.
December 16	Apportionment equivalent to 40 percent of annual tax levy less prior apportionments.
January 4	Apportionment equivalent to 50 percent of annual tax levy less prior apportionments.
January 22	Apportionment of all remaining first half 1 percent (December 10) collections together with first half debt service collections.
March 15	The percentage of total levy collected as of this date shall be determined. Each account shall receive a sum equal to such percentage applied to its share of the 1- percent levy, less prior apportionments.
March 31	The percentage of total levy collected as of this date shall be determined. Each account shall receive a sum equal to such percentage applied to its share of the 1- percent levy, less prior apportionments.
April 18	Apportionment equivalent to 85 percent of annual tax levy less prior apportionments.
April 30	Apportionment equivalent to 90 percent of annual 1 percent tax levy less prior apportionments.
June 6	Apportionment of all remaining second half 1 percent (April 10) collections together with second half debt service collections.
July 27	Apportionment of all delinquent current secured tax collections received during the period of April 1 through June 30.

Source: Controller-Treasurer's Office

Section 2. Tax Collector Trust Funds

- **The Tax Collector's Office has established 18 separate trust funds to appropriately account for and distribute property taxes, penalties and interest collections. However, the Tax Collector does not review or analyze all of the monies deposited in these trust funds on an on-going, timely basis. As a result, the June 30, 2004 balance in these trust funds totaled approximately $27 million, and included transferable collections deposited as much as five years prior to the end of FY 2003-04.**

- **By regularly reviewing and distributing collections placed in these trust funds on a timely basis, the balance in these trust funds can be minimized. The review and distribution of the existing monies in the trust funds would provide approximately $814,000 as a one-time transfer to the County General Fund. In addition, we estimate there is another $412,000 that will be transferable upon the department's upgrade of its computer system.**

Background

The Tax Collector has 18 trust funds. Due to the lack of a modern computer system, the department accounts for these funds through manual spreadsheets and multiple outdated computer systems. The department is developing a new computer system that is expected to improve the accounting of trust fund revenues. For instance, the system will provide for double-entry accounting of trust fund transactions, and eliminate the need for staff to estimate fund balances. Twelve of the trust funds exist to hold property tax payments until apportioned. Since 2003, these "tax collection" funds have been reconciled by the Controller-Treasurer's office, which actively researches fund discrepancies and adjusts fund balances accordingly. There are six other trust funds. Unlike the 12 "collection" funds, these six funds hold monies that may escheat wholly or in part to the General Fund. The total balances in those funds at the end of FY 2003-04 were $27 million, as shown in Table 2.1.

Table 2.1

FY 2003-04 Year End Fund Balances

Fund Name	Total Balance	
0412 -State Redemption Fee Fund	$	9,608
1474 -Delinquent Property Tax Improvement Fund	$	280,189
1480 -Delinquent Tax Sales Fund	$	374,217
1482 -Installment Redemption Fund	$	1,541,419
1483 -Livestock Head Tax Fund	$	15,329
1485 -Tax Collector's Trust Fund	$	24,868,620
Total	**$**	**27,089,382**

In February 2003, the Management Audit Division completed a review of trust fund balances and presented this report to the County Executive and the Board of Supervisors. Subsequently, the Finance and Government Operations Committee directed the County Executive to review all trust fund balances to ensure all funds available for transfer to the General Fund were known and available to the Board of Supervisors for consideration in the annual budget process. The Office of Budget and Analysis last reported available trust fund balances to the Board in February 2004. That review included three Tax Collector trust funds, with balances available as reported by the department, and resulted in a $110,000 General Fund transfer from the Tax Collector's Trust Fund. The Management Audit Division has once again reviewed these Trust Funds to identify resources available for transfer to the General Fund or other funds which the Board of Supervisors has expenditure authority.

The balance in the Delinquent Tax Sales Fund, including $18,103 due the General Fund, was transferred in full in FY 2004-05. The monies in the State Redemption Fee Fund are distributed approximately every six months, with most of the balance distributed to the General Fund and the remainder distributed to the State. Although this fund contained a small balance as of the end of FY 2003-04 and contained a balance of more than $29,000 as of April 2005, these monies are regularly transferred. These transfers are overseen by the Controller-Treasurer's Office.

As of April 2005, the four remaining funds contained balances, some or all of which were available to escheat to the General Fund. These amounts are shown in Table 2.2 below.

Table 2.2

Tax Collector Trust Fund Balance as of April 2005

Fund Name	Total Balance	General Fund Available
Delinquent Property Tax Improvement	$559,869	$559,869
Installment Redemption	$1,372,858	Estimated $412,000[1]
Livestock Head Tax	$17,859	At Least $5,953
Tax Collector's Trust Fund	$13,754,898	Estimated $248,578
Total	**$15,705,484**	**$1,226,400**

Delinquent Property Tax Improvement

This fund accumulates the portion of delinquent property tax payments paid as reimbursement for Tax Collector costs. Per Section 4710 (c) of the State Revenue and Taxation Code, these funds can only be used for:

1. Updating and improving information with respect to delinquent taxes;

[1] This amount, although available, is not immediately transferable due to the excessively complex and time-consuming calculations that would be required to escheat balances using existing technology.

2. Redemption systems;

3. Preparation of certain reports to the Controller-Treasurer; and,

4. The collection of taxes.

The last transfer of monies to the General Fund occurred in FY 1999-00 and amounted to more than $800,000. Since that time, the Tax Collector has ceased to provide these revenues to the General Fund, where they could be appropriated for departmental operating expenses. Instead, the department has earmarked these monies for its technology projects. For instance, in FY 2002-03, the department used $203,000 from this fund to make annual tax bills accessible via the Internet and enable payment of taxes by credit card.

The department intends to use this fund to pay for a small portion of the tax computer system, known as the Tax Collection and Apportionment System (TCAS), in FY 2005-06. The funding request of $1.8 million is net of the resources in this fund. Over the long term, the Tax Collector intends to use this fund as a means to "refresh" existing technology. Table 2.3 illustrates the growth in the fund since June 30, 2003.

Table 2.3

Delinquent Property Tax Improvement Fund

FY 2002-03 Year End Balance	FY 2003-04 Year End Balance	FY 2004-05 Year-to-Date Balance
$135,561	$280,189	$559,869

Although the Board did approve the expenditure of Delinquent Property Tax Improvement Fund resources for the online Bill Presentment project, the annual review of planned expenditures from this and other funds should take place to ensure the expenditure of these monies are consistent with the budget priorities of the Board. The Board of Supervisors should be informed of all resources available, especially when projected revenues are estimated to be insufficient to fund the continued levels of service throughout the County.

Therefore, there is a policy question regarding the Delinquent Property Tax Improvement funds. The question is whether the Board should appropriate these funds to Tax Collector projects or to the Tax Collector's general operating expenses as part of the annual budget process, or whether the Tax Collector should amass the funds for technology projects that may or may not reduce General Fund expenditures.

The use of these funds to support the TCAS project effectively represents an increase in the Finance Agency request for support of the project. Sections 8 and 9 of this report further discuss TCAS funding.

We recommend that the Delinquent Property Tax Improvement Fund monies be transferred to the General Fund annually and appropriated for Tax Collector need based on each year's unique budget requirements, which may include support of the TCAS project.

Installment Redemption Fund

This fund holds installment payments made on delinquent property taxes. Participating taxpayers have five years to pay off their back taxes, penalties, interest and costs. An estimated 70 percent of the balance in the fund is taxes, which, upon distribution, reimburse the County Teeter tax receivable fund for taxes previously allocated to Teeter jurisdictions. The remaining balance of approximately 30 percent is penalties, interest and costs due the Tax Loss Reserve Fund, which in turn would be made available to the General Fund.

Pursuant to Section 4656.6 of the State Revenue and Taxation Code, receipts can be held until the debt is paid in full, or the payments can be transferred upon receipt. The County's practice has been to hold payments until the final redemption payment is made and then distribute the revenue. Therefore, some portion of the balance in this fund is estimated to be approximately five years old. Table 2.4 illustrates the change in the fund balance since the close of FY 2002-03.

Table 2.4

Installment Redemption Fund

FY 2002-03 Year End Balance	FY 2003-04 Year End Balance	FY 2004-05 Year-to-Date Balance
$1,253,097	$1,541,419	$1,372,858

As shown in the table, as of April 2005, the balance in the Installment Redemption Fund was $1.37 million. We estimate that approximately 30 percent, or $412,000, is penalties, interest and costs that could be transferred to the General Fund. Such a transfer would represent a one-time benefit to the General Fund. However, the existing computer systems and existing practices are not designed to calculate partial payment distributions. Therefore, this one-time transfer would require complex manual analysis of the fund balance, and the transfer would be based on manually estimated redemption payments and breakdowns of penalties, interest and costs. Both the Tax Collector and the Controller-Treasurer's staff have indicated that such a transfer would be administratively difficult and prone to error. Determining the amount that could be transferred in advance of the final installment payment would require:

- A separate calculation of each taxpayer's penalties and interest paid at the point that the distribution would be made;
- A means to reverse the transfer of any tax installments previously distributed to apply some or all of those payments to unpaid penalties and interest in the event a taxpayer defaults; and,

- A separate accounting for tax payments made from the two jurisdictions that are not on the Teeter plan.

The proposed tax computer system is intended to include the ability to parse the Installment Redemption fund balance into its various liabilities. We recommend that this capability be developed to assist staff in the timely distribution of installment funds.

Livestock Head Tax

This fund holds receipts from a tax on racehorses. Per Section 5790 of the State Revenue and Taxation Code, the monies in this fund must be transferred to receiving jurisdictions "as promptly as is feasible." If the horse is located within a city and a school district, the receipts are to be divided evenly between the county, the school district and the city. If the horse is not located within a city, the county and school district split the revenues evenly. Therefore, at least $6,000 of the balance in the fund is due the General Fund. The growth in the fund balance is shown in Table 2.5.

Table 2.5

Livestock Head Tax Fund

FY 2002-03 Year End Balance	FY 2003-04 Year End Balance	FY 2004-05 Year-to-Date Balance
$3,635	$15,329	$17,859

Per Revenue and Taxation Code Section 5761, the tax payment is due on January 1 each year and unpaid taxes become delinquent on February 15. Since the law requires prompt distribution of the funds, there should not be balances in the fund as of June 30. The Accounting Division of the Tax Collector lacks an understanding of how to account for these funds. The Controller-Treasurer's office staff is researching the balance and has indicated that the fund balance will be addressed. Although the existing fund balance is small, the monies should nonetheless be distributed quickly pursuant to State law. The Controller-Treasurer's staff should review the fund balance each Spring and actively ensure that the appropriate transfers occur.

Tax Collector's Trust Fund

According to the Tax Collector's "business case" for the development of the new "TCAS" computer system, there are approximately 50 different reasons why receipts would be added to, removed from or held in this fund. Examples of the type of monies that make up the balance in this fund include pre-payments, bankruptcy collections, erroneous payments and duplicate payments. This fund has its own separate system running on the mainframe. Accounting entries are performed manually outside the system. Processing of transactions is time consuming and cumbersome. The development of the new computer system is expected to improve the accuracy of accounting for this fund's balances and reduce the labor and staff time required to process transactions, such as refunds. As shown in Table 2.6, the on-going balances in this fund are large.

Table 2.6

Tax Collector Trust Fund

FY 2002-03 Year End Balance	FY 2003-04 Year End Balance	FY 2004-05 Year-to-Date Balance
$11,241,148	$24,868,620	$13,754,898

Pursuant to Sections 5097 and 5102 of the State Revenue and Taxation Code, unclaimed monies may escheat to the General Fund after four years. The Tax Collector attempts to find the rightful owner prior to the transfer. The most recent transfer to the General Fund was in the Spring of 2004 for approximately $110,000. That amount was made up of deposits from FY 1998-99 or earlier. All present monies in the fund relate to deposits from FY 1999-00 or later.

Unclaimed monies from FY 1999-00 became eligible to escheat to the General Fund on July 1, 2004. Therefore, as of April 2005, these funds were nine months overdue for transfer. The FY 1999-00 amount available to the General Fund was made up of 376 separate items totaling approximately $248,600 as of late February 2005. This transfer is currently budgeted at $125,000. We recommend immediate transfer of the FY 1999-00 balance to the General Fund, and prompt transfer of the FY 2000-01 balance in July 2005. The unclaimed FY 2000-01 estimated balance is more than $780,000.

CONCLUSION

The Tax Collector's Office has established a variety of trust funds to account for and distribute property taxes, penalties and interest collections. However, the Tax Collector does not review and analyze all of the monies deposited in these trust funds on an on-going, timely basis. As a result, there are transferable collections as much as five years old. By reviewing and distributing collections on a timely basis, the ongoing balances in trust can be minimized. Distribution of all existing General Fund-available monies that can be readily transferred would provide an estimated $814,000 in one-time benefit to the County General Fund.

RECOMMENDATIONS

The Board of Supervisors should:

2.1 Appropriate Delinquent Property Tax Improvement Funds for Tax Collector needs based on each year's budget requirements. (Priority 1)

The Tax Collector should:

2.2 Develop computer capability to identify and escheat monies in the Installment Redemption fund. (Priority 1)

2.3 Immediately transfer the FY 1999-00 balance in the Tax Collector's Trust Fund to the General Fund, and promptly transfer the FY 2000-01 balance in July 2005. (Priority 1)

The Controller-Treasurer should:

2.4 Ensure that the appropriate Livestock Head Tax transfers occur timely pursuant to State law. (Priority 1)

COSTS AND BENEFITS

Implementation of Recommendation 2.1 would give the Board the flexibility to each year determine whether to use balances in the Delinquent Property Tax Improvement fund to provide for the Tax Collector's general operating expenses or to use the funds for special Tax Collector projects, including technology projects. For instance, the Board could decide to use the funds to offset some of the expenses for the Tax Collection and Apportionment System (TCAS) in the next few years, but redirect future fund balances to cover basic Tax Collector operating expenses in later years, as the County's financial circumstances dictate.

Implementation of Recommendation 2.2 could increase the cost of TCAS by an undetermined amount. However, it would enable the department to escheat balances without carrying out manual estimates.

Implementation of Recommendation 2.3 would provide an estimated $248,600 to the General Fund immediately, and an additional estimated $780,000 this summer, for a total of more than $1 million in additional one-time revenue.

Implementation of Recommendation 2.4 would provide a small transfer to the General Fund immediately, and would ensure that the County complies with the timeliness requirement in State law.

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Section 3. Implementation of County-wide Fee Policies and Procedures

- **The Tax Collector's Office charges 25 separate fees and charges for services that recover approximately $2.3 million annually in departmental costs. However, the Tax Collector's Office does not have written policies and procedures to ensure that all fees are regularly reviewed and increased or decreased in accordance with actual costs, County policies, and State and federal governmental accounting standards. In February 2005, the Internal Audit division found that the Tax Collector does not have accurate cost bases for fees charged, is not maximizing fee amounts and is not charging all possible fees. The Department has agreed to implement recommended improvements.**
- **The 2002 Management Audit of the Controller-Treasurer Department reported County-wide deficiencies regarding departmental management of more than 200 rates and charges for services recovering in excess of $67 million annually. Most of these fees are cost based. The Board of Supervisors approved audit recommendations that a County-wide rates and charges policy be established; that all departments develop internal written procedures for the review of fees at least biennially; that the Controller-Treasurer develop County-wide fee setting procedures for departmental use; and that a report of fees and charges be included at the annual budget workshop. None of these Board directives has been implemented.**
- **As a result, a policy of regular review of all Tax Collector fees does not exist, and the Tax Collector does not have standardized written procedures to perform cost analyses of its services to ensure that County costs are fully recovered. Also, a comprehensive fee schedule does not exist, which has enabled different charges for returned checks within the Finance Agency. The Recorder charges $20 for a returned check, while the Tax Collector charges $85.**
- **By implementing the policy and procedural recommendations described above, the Tax Collector could fully recover its costs for services provided and County-wide fee revenue would increase by as much as $300,000 annually.**

Tax Collector Fees and Charges

Excluding State reimbursements for costs arising from the collection of supplemental property taxes, the Tax Collector recouped approximately $2.3 million in service costs in Fiscal Year 2003-04. Most of this was collected from other jurisdictions in exchange for administration of assessments and tax collection. Approximately $250,000 was recovered through miscellaneous fees for services such as processing returned checks, establishing payment plans and providing records.

Legal Requirement for Fees

Some fee amounts are specified by statute. However, pursuant to Government Code Section 54985, the Board of Supervisors may "override" these statutory amounts by setting fees at an amount necessary to cover costs. In addition, State law allows the Board to impose its own fees for service. However, pursuant to Government Code Section 66016, fees cannot exceed costs, and new fees or increased amounts must be approved by the Board by ordinance or resolution in a public hearing. Prior to the hearing, the County must make public its data regarding the cost to provide the service and the revenue sources to fund the service.

Charges that appear to exceed the cost of the service may be challenged in court as a "special tax" that requires voter approval. Fee payers have sued local governments arguing that fees were in fact illegal taxes, prompting courts to delve into cost estimates and the basis for determining apportionment of costs to fee payers. If a fee is challenged as a "special tax," courts have ruled that it is up to the agency adopting the fee to produce evidence that the fees will not exceed the reasonable cost of the service (*City of Dublin v. County of Alameda, 1993*).

Although the law permits the County to set fees at rates higher than the statutory rate, such charges may heighten vulnerability to challenges. Table 3.1 below lists current fees that have been set at amounts that exceed the statutory amount.

Table 3.1

Fees Set at Rates Higher than Statutory Rate

Fee Name	Amount per Statute	County Charge
Parties of Interest	\$35	\$215
Redeem Tax Defaulted Property	\$15	\$30
Seizure Fees	\$15	\$45
Delinquency Fees	\$10 on second delinquent installment	\$20 on first and second delinquent installments

The Tax Collector's Cost Basis for Fees

The Tax Collector does not have procedures or policies in place to ensure accurate cost accounting. Nonetheless, most Tax Collector fees were increased by the Board of Supervisors in the fall of 2003, based on rates proposed by the former Tax Collector. The former Tax Collector calculated estimated costs for 12 services, and set fee amounts somewhat below those estimated costs. For the remaining fees, rates were proposed without preparing specific cost estimates. The cost estimates were based on the amount of time it takes staff to perform each step required to provide the service, multiplied by the estimated cost of that time and a percentage for indirect costs.

The cost of staff time and the indirect cost percentage were calculated by the former Tax Collector. Current staff cannot replicate these calculations. As such, it is undetermined whether the cost estimates approximately match actual costs. As detailed by the Internal Audit Division in its February 25, 2005 "Tax Collector's Office Audit of Rates and Charges" report:

> The department does not have adequate support for the hourly rate and the County overhead used to compute its fees. The fee computations do not show how the hourly rate and overhead percentage was derived.

The Tax Collector is attempting to properly recover fees, but is uncertain how to calculate appropriate rates and whether to charge for all costs if fees seem high. We recommend development of a County-wide fee policy that establishes the extent to which costs should be recovered, and that the Controller-Treasurer provide procedures for the Tax Collector and all other departments to enable them to accurately estimate costs and set fees.

The Internal Audit report also found that the Tax Collector is not maximizing fee amounts and is not charging all possible fees. In response to the Internal Audit report, the Tax Collector agreed to document the basis for all fees, to charge all allowable fees at the maximum allowable amount, to update fees annually and to validate that fee amounts do not exceed the cost of services.

Every time the County charges a fee for which there is insufficient documentation, it risks two negative outcomes. First, the County risks potential litigation from parties alleging that a fee is really a tax. Second, the County risks not recovering its costs, which then causes taxpayers to subsidize services.

Services Subsidized by Taxpayers

The Tax Collector does not publish a comprehensive schedule of fees. The current fees and charges, excluding tax collection costs, were compiled by Management Audit Division staff and are listed in Attachment 3.1. The attachment shows the fee name, the fee amount per statute, the cost to provide the associated service as estimated by the Tax Collector in 2003 if available, the current fee amount charged, and the date the fee was most recently increased. Again, as shown in the attachment, a dozen existing fees were set at amounts below estimated costs.

As previously indicated, the accuracy of the estimated costs is undetermined. However, assuming that the estimated costs were reasonably accurate in 2003, setting fees below costs means that taxpayers subsidize services that should be paid for by the users of those services. For the dozen services with a 2003 cost estimate, the average inflation-adjusted taxpayer subsidy is now estimated at $4.39. Therefore, taxpayers are subsidizing approximately $10,000 worth of annual costs for redemption of tax-defaulted properties, and $3,000 to process returned checks.

Because salaries, health insurance premiums and other costs tend to rise annually, fees that are appropriately calculated initially but not updated annually are unlikely to recover costs. At present, fee changes occur at random intervals. Every time costs increase without a corresponding increase in fees, the County loses revenue and taxpayers subsidize services. Therefore, County fees should be reviewed and updated as appropriate every year. Since anticipated changes in costs are estimated each year as part of the budget process, these same estimates should be included in the cost basis for development of fees.

Santa Clara County should implement a fee-adjustment procedure in conjunction with the annual budget process similar to that in use by Sonoma County. There, fees are updated annually County-wide, and the resulting revenue estimates are included in each department's budget submittal. Depending on the type of fee, the Sonoma Board of Supervisors approves new fees in April, mid-June and during the final budget hearing. The County's procedures, as well as sample forms and reports, are provided as Attachment 3.2.

In response to the Internal Audit Division's fee findings, the Tax Collector has agreed to update fees annually. Frequent review of fees is especially important in the Tax Collector's office given that the Department plans to implement a new computer system in a few years that is anticipated to reduce manual labor dramatically. This may change the cost of providing some services, thus affecting fees.

Board Directives Not Implemented

Most of the Tax Collector's fee deficiencies stem from the County's failure to implement previous Board directives. Had the directives been implemented, the Tax Collector would have had guidance in estimating costs and therefore fees would have been demonstrably consistent with costs.

A 2002 Management Audit of the Controller-Treasurer found that County-wide losses due to inadequate recovery of costs amounted to an estimated $1.8 million. The audit made numerous recommendations to improve cost recovery. On November 5, 2002, the Board approved the following recommendations from that audit:

1. Adoption of a policy requiring:

   a. All charges and fees, and any changes to those charges and fees, be authorized by the Board of Supervisors and approved by ordinance as required by State law;

   b. Departments to establish internal written procedures to provide for the review and update of fees and charges at least biennially;

   c. A full cost analysis be completed by the department to provide a basis for setting fees and charges; and,

   d. Review by the Controller-Treasurer that all charges and fees submitted to the Board for authorization comply with State law, County policy, and cost accounting guidelines.

2. Controller-Treasurer development of written procedures for charge and fee calculations and cost analysis.

3. Controller-Treasurer review of charges and fees submitted to the Board for compliance with State law, County policy and cost accounting guidelines.

In addition to approving the implementation of the above recommendations, the Board also directed the Administration to provide an annual overview of current charges and fees to the Board during budget workshops. The audit matrix as approved by the Board is attached as Attachment 3.3.

As of April 2005, none of these directives has been carried out. In its audit of the Tax Collector fees, the Internal Audit Division noted that "the Tax Collector's Office does not have staff with the necessary cost-accounting expertise to develop a complete cost analysis that meets cost accounting standards."

It is likely that had the directives been implemented in 2002, the Tax Collector would have fewer fee deficiencies identified in the Internal Audit report. The 2002 management audit also recommended adding a Senior Accountant to assist with cost accounting. The Board directed the Administration to "study the timing and net revenue potential" of the recommendation and report back to the Finance and Government Operations Committee. No analysis was conducted, no report came back to the committee, and the recommended position was not added due to budget considerations. Instead, the Office of Budget and Analysis implemented a fee questionnaire that asks departments to describe fees, the basis for the fees, and estimated fee revenues.

In response to a recommendation from the 2004 Management Audit of the Public Health Department that the Controller-Treasurer review Public Health fee transmittals for accuracy prior to Board consideration, the Controller-Treasurer submitted a memo recommending the scope of such review be expanded to include all fee calculations and transmittals. The Controller-Treasurer reiterated the need for staff to accomplish this task. Because of the budget impact of the recommendation, it was referred to the FY 2005-06 budget process.

According to the Controller-Treasurer, the approved recommendations were not implemented because the Controller-Treasurer's office lacks the staff to do the work. The Controller-Treasurer has indicated that these directives would be implemented if additional staff were provided. It should be noted that a cost accountant position would pay for itself. First, the position would assist in the recovery of an estimated $1.8 million in under-collected fee revenues. Second, most if not all of the cost of the position itself could be recovered through the indirect portion of service charges. Third, at present, senior personnel in other departments – including the Tax Collector – are attempting to develop their own methodologies. Having an Accountant to assist all departments would be more cost effective than having potentially dozens of senior staff County-wide attempting to be cost accountants.

Although staffing in the Controller-Treasurer's office is not ideal, the financial and legal implications of charging inappropriate fee amounts make implementation of the approved recommendations critical. We note that, although we still recommend the additional staff, the Board's direction to implement the aforementioned recommendations was not contingent on approval of the recommendation to add a Senior Accountant. In the absence of the additional position, we recommend that the Controller-Treasurer use existing staff as necessary to implement the recommendations approved by the Board as identified above.

As shown in Table 3.2, problems with the setting and collection of fees are not unique to the Tax Collector. Since 1981, numerous audits by the Management Audit Division have identified inadequate documentation of the basis for fees and inadequate recovery of costs County-wide.

Table 3.2

Examples of Inadequate Charges and Insufficient Documentation for Fees Identified in Management Audit Reviews

Year	Function	Central Findings
1981	Animal Control	Undercollection of fees
1987	Paratransit Services	Undercharging of fees
1988	Parks and Recreation	Undercollection /undercharging fees
1992	Corrections	Undercharging of fees
1995	Registrar of Voters	Undercharging of fees
1999	Assessor	No documentation for fees charged
2002	Controller-Treasurer	Inadequate documentation, collection, oversight, and approval of fees countywide
2003	Sheriff	Statutory fees too low
2003	Inmate Booking Fees	Undercollecting fees from cities
2004	Public Health	Inadequate documentation and undercharging of fees
2005	Tax Collector	Inadequate documentation and undercharging/undercollection of fees

It is clear from the table that the Tax Collector is only one of many functions in need of specialized assistance from the Controller-Treasurer. Such assistance would enable the County to comply with recommended practices in fee setting, as outlined below.

Best Practices in Fee Setting

The Government Finance Officers Association (GFOA) has established recommended practices in public finance. The following are best practices in government fee setting:

- Adoption of a policy governing fees and charges that specifies how rates are set, how frequently they are adjusted, and the extent to which they are intended to cover the cost of the service provided. There are sometimes reasons why fees cannot or should not recover 100 percent of costs. Governments should establish by policy the reasons why any particular cost is not being recovered through fees.

- Governments should calculate the full cost of services, whether or not those costs are intended to be recovered.

- Charges and fees should be updated periodically.

- Information on fees and charges should be made available to the public. This includes the government's policy regarding cost recovery and information about the amounts of charges and fees, current and proposed, both before and after adoption.

Although most County customers cannot shop elsewhere for services, even captive customers deserve to know the prices of services, who sets the rates and when. In keeping with best practices, the Office of Budget and Analysis should compile and annually update a County-wide fee schedule. The lack of a schedule means that County customers, staff and policymakers lack easy access to all prices. Having a fee schedule would enable citizens and staff to be certain that correct amounts have been paid. The lack of a comprehensive price list represents a fraud control problem as an unscrupulous employee could either overcharge for services or charge bogus fees. The fact that fee updates are not routine means that fees could be updated by the Board but the updates might not be implemented by staff.

In addition, the lack of a comprehensive fee schedule means that discrepancies in fees charged for similar services are not highlighted. Therefore, charges for similar services may be set at different rates. For instance, we note that the Recorder's office charges $20 for a returned check, while the Tax Collector charges $85 for this service. Although the difference in rates could be due to differences in actual costs, it is likely that some portion of the discrepancy is due to inappropriate rates set by one or both entities. Section A14-30 of the County Code requires the Director of Finance to determine the costs incurred by the County for returned checks and prescribe procedures for the imposition of related charges.

Lastly, because of the lack of a County-wide fee schedule, the Tax Collector has only a partial list of fees. The list indicates that six fees were established or changed "per discussion" with the former Tax Collector, inaccurately suggesting that these changes were made without Board approval. The list also identifies various dates, making it difficult to determine when the fees became effective, and does not indicate when fees received Board approval.

CONCLUSION

The 2002 audit of the Controller-Treasurer by the Management Audit Division estimated that updating fees to reflect current costs would increase revenues by $1.8 million. Audits before and since have documented that Santa Clara County has been under-collecting fee revenues since at least 1981. These problems continue in the Tax Collector's office today. The Tax Collector lacks written policies and procedures to ensure that all fees are regularly reviewed and increased or decreased in accordance with actual costs, County policies, and State and federal governmental accounting standards. In February 2005, the Internal Audit division found that the Tax Collector does not have accurate cost bases for fees charged, is not maximizing fee amounts and is not charging all possible fees. Although the Department has agreed to implement recommended improvements, the Tax Collector needs the assistance of the Controller-Treasurer's Office.

The absence of a comprehensive schedule of fees adopted in conjunction with the annual budget means that updates occur at unpredictable intervals, creating multiple fee rates for similar services and leaving the public and staff without an authoritative price list. It also means that most fees are frequently outdated, reducing County revenues and forcing taxpayers to subsidize services.

Lastly, the failure to adequately document the cost basis for fees exposes the County to potentially expensive litigation by parties alleging that any given fee exceeds the actual cost to provide the service. By implementing the policy and procedural recommendations in this report, the Tax Collector could fully recover its costs for services provided and County-wide fee revenue would significantly increase on an ongoing basis.

RECOMMENDATIONS

The Controller-Treasurer should:

3.1 Implement Recommendations 6.1, 6.3 and 6.4 of the 2002 Management Audit of the Controller-Treasurer, as shown in Attachment 3.3. (Priority 1)

The Board of Supervisors should:

3.2 Approve a County-wide fee schedule on an annual basis, as prepared by the Office of Budget and Analysis beginning in FY 2006-07. (Priority 2)

COSTS AND BENEFITS

Updating of all fees and charges would generate an estimated $2 million in the first year of implementation. The annual value of regularly updating fees is estimated at approximately $300,000. In addition, cost estimates that demonstrate that the revenue from the fees do not exceed the cost of providing the services are a legal requirement of imposing the fee.

Adoption of a County-wide fee policy would result in nominal one-time costs. Various fee policies already in place in other agencies could be modified to suit Santa Clara's needs, and guidelines are available from the Government Finance Officer's Association.

Developing procedures by which departments estimate costs would likely require substantial time from either permanent or temporary staff in the Controller-Treasurer's office. The Controller-Treasurer was unable to estimate the amount of time. However, even if it required one full-time person, the cost would be fully recovered through the resulting increased revenues and through folding the employee's salary into the fee charges.

Each department would incur some costs in preparing initial cost estimates and updating those estimates and associated fees annually. The amount of time needed would vary depending on the extent of documentation already available from the department. It should be noted that, regardless of this cost, departments are required to properly calculate the cost of services in order to ensure that fees are legally set. Once standardized procedures are in place, the work to update calculations would not be onerous.

The Office of Budget and Analysis would incur additional workload in compiling a fee schedule.

Attachment 3.1

Current Tax Collector Fees and Charges

Type	Fee Per Statute	2003 County Service Cost Estimate	Santa Clara Fee	Date Adopted/Revised by Board
Excess Proceeds Costs	Actual Cost	$248.00	$245	September 9, 2003
Duplicate Mobile Home Clearance Certificate	Actual Cost	$38.80	$35	September 9, 2003
Set Up Extended Payment Plan	Actual Cost	$84.86	$80	September 9, 2003
Set Up Unsecured Payment Plan	Actual Cost	$69.17	$65	September 9, 2003
Research Fees	N/A	N/A	Actual Cost	September 9, 2003
Sale of Tax Defaulted Property	$150	More than $150	$150	September 9, 2003
Set Up Redemption Installment Plan	N/A	$90.52	$85	September 9, 2003
Parties of Interest Fee	$35	$219.02	$215	September 9, 2003
Redeem Tax Defaulted Property	$15	$32.66	$30	September 9, 2003
Returned Check Charge	Actual Cost	$86.72	$85	September 9, 2003
Seizure Fees - Unsecured Tax	$15	$47.16	$45	September 9, 2003
Separate Valuation - Segregation Fee	Actual Cost	$164.27	$160	September 9, 2003
Administration of Bonded Assessments	5% or $8 per parcel	N/A	5% or $8 per parcel	September 9, 2003
Administration of Direct Assessment	1% of the charge	N/A	1% of the charge	September 9, 2003
Delinquent Publishing List	$10 per parcel on second delinquent installment	$20.14	$20 per parcel on first and second delinquent installments	October 7, 2003
Master File Costs	N/A	N/A	$800	October 7, 2003
Unsecured Collection Fee	Actual Cost	$52.57	$50	October 7, 2003
Taxes Receivable Master File	N/A	N/A	$500	October 7, 2003
Special Assessment File	N/A	N/A	$400	October 7, 2003
Redemption Master File	N/A	N/A	$500	October 7, 2003
Cumulative Taxes Update	N/A	N/A	$300	October 7, 2003
Personal Contact/Auction Fee	Actual Cost not to Exceed $100	N/A	$100	N/A
Electronic Check Fee	Considered an "Administrative Cost"	N/A	$15 ($27 if over $10,000)	$15 approved as part of FY 04-05 budget
Credit Card Fee	Actual Cost	N/A	2.5% of payment	Not Approved
Bidder Information Packet	N/A	N/A	$5	Undetermined

FEE HEARING REQUIREMENTS

Revenues from fees, permits and user charges are evaluated by departments during proposed budget preparation. The purpose of this chapter is to define the requirements of the fee hearing process for those locally controlled fees, permits and user charges, and to standardize the way information is presented. This chapter does not apply to internal service fees (i.e., computer services and vehicle charges) or State mandated statutory fees that are automatically implemented. The format identified in this process is designed to apply to all requests for increases in fees, permits and user charges, regardless of when the fee hearing is held.

Departments must review existing, new or increased fees with County Counsel regarding the requirements of Prop 218.

This chapter includes the following sections:

A. Fee Hearing Schedules
B. Fee Hearing Process
C. Agenda Item Format for Fee Hearing

A. Fee Hearing Schedules

1. April Ordinance Fee Hearing

   The County Administrator may authorize some departments to participate in an early fee hearing held in April so that their fee increases will be in effect as of July 1st and the revenue generated will be reflected for the full year. Generally, this hearing will include development services fees and utility rates, such as water and sewer. Because the fee hearing for these departments will precede the Board's Final Budget review process, it is intended to be limited to budgets meeting the following criteria:

   a Fee must be adopted by ordinance and department is largely fee funded
   b Fee is adopted by resolution and is generally related to fees adopted by ordinance or involves a significant budget or policy decision
   c Enterprise or other special funds
   d Fee revenue is to be included in the Proposed Budget

2. Proposed Budget Fee Hearing

   The County Administrator may authorize some departments to participate in a fee hearing to be held in mid-June so that their fee increases will be in effect as of July 1, and the revenue will be reflected for the full year. Generally, this hearing will include Health & Social Services and Public Protection Services. Because the fee hearing for these departments will precede the Board's Final Budget review process, it is intended to be limited to budgets meeting the following criteria:

   a Enterprise or other special funds
   b Departments having fixed County tax support
   c Departments that are largely fee funded
   d Fee revenue is included in the Proposed Budget or is to be included in the Final Budget

Final Budget Fee Hearing

The Board of Supervisors holds an annual fee hearing to consider new and increased fees during Final Budget Hearings. This allows the Board to consider any remaining fees in context with the department's budget request. Fees usually become effective upon the adoption of the final budget.

Departments which schedule fee hearings during other times of the year should include in the agenda item background the reason for adjusting fees "off track," i.e., due to legislative requirements or other specific reasons. The agenda material should also follow the format identified in this chapter.

C. Fee Hearing Process

1. Submission of the Proposed Budget Request to County Administrator

   a Fee and Rate Changes
   As in the past, fee increases will be included in the proposed budget. Your proposed budget request must identify fee rate increases, the effective date of the rate change, the key justification and the additional revenues anticipated from the rate increase based on next year's projected volume. Please refer to the section on Revenue Character Justification earlier in the instruction package for further direction/explanation.

   b Inter-Departmental Coordination
   Departments are responsible for coordinating and communicating with other departments that may be impacted by new fees or increased fees prior to submittal of your Proposed Budget request. This includes notifying the department being charged for services rendered that the fees are increasing or new fees are being implemented.
   You must also coordinate with any Department Head who is collecting fees on your behalf. If you increase your fees or add new fees, you must notify the "collecting" department in order to avoid a loss of revenue.

   c Submit Copy of Fee Hearing Agenda Item
   Departments are requested to submit a copy of the fee hearing agenda item with their Proposed Budget request.

   d April Ordinance and Proposed Budget Fee Hearing Track
   If you have requested and are approved by the CAO to participate in the April Ordinance or Proposed Budget fee hearing, your budget must be submitted on time in order for budget review to be complete prior to the hearing.

2. Consolidated Fee Hearing - Public Notice

   Consult County Counsel for public notice requirements for fee and rate changes prior to any submittals to the County Administrator's Office. Identify code sections and publication requirements in a cover memo which must be included in your fee hearing agenda package, for the item to be considered complete.

   For the April Ordinance Fee Hearing, the Proposed Budget Fee Hearing and the Final Budget Fee Hearing, the County Administrator, in consultation with County Counsel, will submit a consolidated agenda item setting the time and date of the public hearing for all of the departments to be heard on that date. We will publish according to the appropriate Government Code Section. Therefore, departments do not need to submit individual public notices.

   If you miss the County Administrator's consolidated notice, or have special handling requirements which do not fall into the consolidated notice mentioned above, it is your responsibility to submit a separate agenda item setting the time and date of the public hearing, including a notice allowing sufficient time for the notice/publication requirements. This is in addition to the actual fee hearing agenda package.

3. Agenda Process for Consolidated Fee Hearing

   The County Administrator will compile all departmental fee hearing agenda items into one package for the April, Proposed Budget and Final Budget Fee Hearings. Departments should submit one consolidated agenda item covering all fee increases within that department head's scope of responsibility. For example, Transportation and Public Works would submit one agenda item covering Airport, Integrated Waste, Transit, Roads, and Special Projects, if those functions have fee increases being considered at the same time.

4. Agenda Process for Single Department Fee Hearing

   Departments requesting a fee hearing outside of the April, Proposed Budget, or Final Budget fee track of the annual fee hearing should follow the normal agenda process:

   a Submit agenda item setting the public hearing date and time as required by the Clerk of the Board. The department should consult with County Counsel for the appropriate notice and publication requirements. The department would prepare a notice in this situation.

   b Prior to publication of the public notice, the department should prepare the fee hearing agenda package following the format identified below in "Agenda Item Format for Fee Hearing."

5. Attendance

   Any time the department has scheduled a public fee hearing, the department head, or his/her designee, must be present to answer questions or provide information to the Board.

D. Agenda Item Format for Fee Hearing

1. Agenda Item Transmittal

   The title should be related to the adoption of the proposed fees, i.e., "Resolution (or Ordinance) adopting fee increases for Department XYZ." The "Requested Action" should summarize the type of permits or services for which fees are being increased.

2. Agenda Item Summary Report

   a The title should be the same as the Transmittal title.

   b Complete the Current Year Financial Impact Section as appropriate. For consolidated Fee Hearings where the appropriations and revenues are budgeted, simply state "see the background report Fee and Revenue Summary Chart."

   c Unless there are special circumstances, 4/5ths Vote Required is "NO."

   d Prior Board Actions should include the date that fees were last increased.

   e Identify Board alternatives and results of non-approval, such as loss of revenue, service level changes, etc.

3. Background Report

   Departments should present the background information in a clear, concise manner. Extraneous material should be left out of the report. The background report should include:

   a Executive Summary

      The executive summary should present an overview of the fee increases by category (or section or type as appropriate), including key points, such as the range of fee increase (%), identification of new fees, total revenue generated by the increase, etc. Specific justification for the fees will be included in the Fee and Revenue Summary Chart.

b Service Improvement Plan

The Board has directed that departments prepare an annual service improvement plan when requesting fee rate increases. The intent is to identify efficiency and productivity measures taken or planned to minimize the level of rate increases, while improving customer service.

Your approach to the plan may vary from department to department just as the services vary. Questions to consider include: What has been done to keep fees down? What steps are being taken to maximize service levels without significantly increasing fees? What increases in service levels/ productivity will result from increasing the fees? How will customer service be improved?

The plan must be easily understood, clearly written and measurable. Please use "bullets" to concisely describe:

- Productivity, efficiency, and customer service improvement measures taken or planned
- A summary of the expected results
- A summary of the results of the prior year plan, if applicable

Examples:

Sample Productivity, Efficiency, and Customer Service Improvement Measures

- Install a permit management system (briefly describe)
- Better management of field staff time and workload (briefly describe)
- Use color-coded files based on each inspector's area of service and submit daily permit status reports on a work flow chart
- Percent of staff who have completed customer service training

Sample Summary of Expected Results

- Reduce field inspection waiting time by 50% or 5 weeks
- Inspect 20% or 2 more plans per day
- Reduce annual overtime by $10,000
- Provide daily updates of permit inspection status to department management and applicants
- Conduct customer service survey

Sample Summary of Result of Prior Year Plan

- Designed a permit management system which was implemented
- Backlog was reduced from 8 to 5 weeks for plan review

4. Fee and Revenue Summary Chart

The following format should be utilized for all individual fees:

a Elements of the Fee and Revenue summary Chart:

Department XYZ						
Fee Description	FY 05-06 Budget Units of Service	FY 04-05 Rate	FY 05-06 Proposed Rate	Rate Dollar Change	Rate Percent Change	FY 05-06 Revenue Increase Due to Rate Change

See Sample included in "Reference Documents" of Appendices.

Sub-Heading (if applicable)

Policy Increases: (fee increased above COLA and new fees)

Fee Description: (in sufficient detail)

Justification (one fee or group of fees)
COLA Increases: (fee increases at COLA or below)

Fee description:

- a Layout should be profile, 8-1/2 x 11. (In the same direction as this page.)
- b Title the chart by Division.
- c Use Sub-Headings to break out sections, divisions or service areas or types of fees, whichever is appropriate.
- d Level of Detail in the "Fee Description" should include sufficient information to describe the fee or category of fees, i.e., "Class 1 Retail Establishments (Roadside Stands.)"
- e In those situations where the department has too many fees to break out individually, the fee descriptions may be grouped into categories, i.e., "Surgical Fees – Minor."

Within sub-heading, separate fees by:

- a Policy Increases - fee increases above COLA, new fees, policy issues and/or controversial fees, even if they are only COLA increases.
- b COLA Increases - fee increases at or below COLA.

Policy Increases (fees above COLA or new fees) require a brief "Justification" statement by fee. If the same justification is appropriate for more than one fee, the justification statement may be listed once following those fees.

Add all revenue to be generated by the proposed fee increases, giving a 'Grand Total Department' at the end of the Fee and Revenue Summary Chart.

Resolution or Ordinance

The resolution or ordinance should include the following:

- a Authority or citation allowing the new or increased fee
- b Effective date of the new or increased fee

SAMPLE

Fee and Revenue Summary Chart

DEPARTMENT XYZ

Fee Description	FY 05-06 Budget Units of Service	FY 04-05 Rate	FY 05 –06 Proposed Rate	Rate Dollar Change	Rate % Change	FY 05-06 Revenue Increase Due to Rate Change
Section ABC						
Policy Increases:						
Zoning Permits	5,500	11.00	12.00	1.00	9.1%	5,500
Justification: Above increase reflects 5% and 6% salary and benefit increases as well as supply costs of 10%.						
COLA Increases:						
Zone Change	120	524.00	550.00	26.00	5.0%	3,120
Use Permits	230	438.00	460.00	22.00	5.0%	5,060
Environmental Review	400	180.00	189.00	9.00	5.0%	3,600
Total Section ABC						17,280
Section DEF						
Policy Increases:						
Fingerprinting Fees	650	4.00	4.30	0.30	7.5%	195
Justification: Above fingerprint supplies have increased by 7.5% and salaries and benefits have increased by 5-6%.						
COLA Increases:						
Crime Report Copies	110	2.50	2.60	0.10	4.0%	11
Total Section DEF						206
Section GHI						
Policy Increases:						
Crisis Intervention-60 min.	100	150.00	160.00	10.00	6.7%	1,000
Crisis Intervention-45 min.	100	112.00	120.00	8.00	7.1%	800
Crisis Intervention-30 min.	100	75.00	80.00	5.00	6.7%	500
Crisis Intervention-15 min.	100	38.00	41.00	3.00	7.9%	300
Justification: Above Crisis Intervention fees reflect salary & benefit increases of 7% for nursing and counseling staff.						
COLA Increases:						
Individual Therapy - 60 min	100	88.00	92.00	4.00	4.5%	400
Individual Therapy - 45 min	100	66.00	69.00	3.00	4.5%	300
Individual Therapy - 30 min	100	44.00	46.00	2.00	4.5%	200
Individual Therapy - 15 min	100	22.00	23.00	1.00	4.5%	100
Total Section GHI						3,600

Fee Description	FY 05-06 Budget Units of Service	FY 04-05 Rate	FY 05-06 Proposed Rate	Rate Dollar Change	Rate % Change	FY 05-06 Revenue Increase Due to Rate Change
Section JKL:						
Policy Increases:						
Well Permits Class I (Descr.)	800	181.00	216.00	35.00	19.3%	28,000
Well Permit Class II (Descr.)	30	215.00	257.00	42.00	19.5%	1,260
Justification: The above fees reflect 19.5% increases previously directed by the Board to offset the cost of additional staff.						
State Small Water Systems	45	0.00	250.00	250.00	100.0%	11,250
Non-Community Systems	254	0.00	150.00	150.00	100.0%	38,100
Community Systems:						
15-50 Connections	92	0.00	400.00	400.00	100.0%	36,800
50-100 Connections	34	0.00	450.00	450.00	100.0%	15,300
100-200 Connections	27	0.00	500.00	500.00	100.0%	13,500
Justification: The above fees are set to offset salary & benefit increases, supplies and laboratory services required for this program. The Water Program is a new program established to monitor small water systems locally rather than by the State.						
Total Section JKL						144,210
Total Division						165,296
Grand Total Department						XXXXXX

COUNTY OF SONOMA AGENDA ITEM SUMMARY REPORT			Clerk of the Board Use Only Meeting Date ___/___/___ Agenda Item No: __________
Department: Treasurer-Tax Collector			( ) 4/5 Vote Required
Contact: Jonathan Kadlec	Phone: 565-6124	Board Date: April 20, 2004	Deadline for Board Action: April 20, 2004

AGENDA SHORT TITLE:
Resolution adopting fee increase for processing checks with insufficient funds

REQUESTED BOARD ACTION:
Approval of Resolution of the Board of Supervisors of the County of Sonoma, State of California, authorizing the Treasurer-Tax Collector's Office to increase the charge for insufficient funds checks from $20 to $30.

CURRENT FISCAL YEAR FINANCIAL IMPACT

EXPENDITURES			**ADD=L FUNDS REQUIRING BOARD APPROVAL**		
Estimated Cost	**$**		**Contingencies** **(Fund Name:)**	**$**	0
Amount Budgeted	**$**		**Unanticipated Revenue** **(Source:)**	**$**	0
Other Avail Approp **(Explain below)**	**$**	0	**Other Transfer(s)** **(Source:)**	**$**	0
Additional Requested:	**$**	0	**Add=l Funds Requested:**	**$**	0

Explanation (if required):
See the background report "Fee and Revenue Summary Chart"

Prior Board Action(s): On 9/29/87 a Resolution passed authorizing the returned check fee of $10. On 11/17/92 a Resolution was passed increasing the fee from $10 to $20 with an effective date of 1/1/1993.

Alternatives - Results of Non-Approval: The returned check fee will remain at $20 and actual costs for processing will not be recovered. Current service levels may not be maintained.

Background:

Pursuant to Government Code Section 6157(a) the County Treasurer's Office is authorized to accept payment for any license, permit or fee in the form of a personal check. And, according to Government Code Section 6157(b), if any check is returned without payment, for any reason, a reasonable charge not to exceed the actual cost, may be imposed to recover those costs. Currently, the Sonoma County Treasurer's Office is charging $20 to process returned checks. A review of this charge shows that the cost of processing these returned checks exceeds the revenue generated by $13,971.

Therefore, we are requesting an increase in the insufficient funds check fee from $20 to $30. The added revenue, based upon estimated 2004-2005 levels would generate an additional $13,750. The amount of $13,750 would reduce the difference between the cost of processing returned checks and the revenue generated to $221. If we were to include A-87 indirect costs this amount would be somewhat higher. The increased fee will become effective July 1, 2004, and the additional revenues will be in effect for the entire 2004-2005 fiscal year.

SERVICE IMPROVEMENT PLAN

- Workload for processing NSF checks has increased 32% over 1993 levels. This revenue increase will allow the Treasurer's office to continue to process current levels of insufficient funds checks, allowing for moderate increases in workload.
- Reduce expected turnaround of NSF checks to depositing departments to 24-48 hours.
- Continue to attempt to redeposit checks in order to avoid incurring the insufficient funds item charge.
- Work with departments to improve the efficiency of researching NSF items to reduce processing time.

Attachments:

1) Resolution of the Board of Supervisors.
2) Fee and Revenue Summary Chart

On File With Clerk:

1) Exhibit A - Review of Insufficient Funds Costs and Revenues

CLERK OF THE BOARD USE ONLY

Board Action (If other than ARequested@)	Vote:
________________________________ ________________________________ ________________________________	

FEE AND REVENUE SUMMARY CHART

Department: Treasurer-Tax Collector

Fee Description	FY 04-05 Budget Units of Service	FY 03-04 Rate	FY 04-05 Rate	Rate Dollar Change	Rate Percent Change	FY 04-05 Revenue Increase Due to Rate Change
POLICY INCREASES:						
Insufficient Funds Fee	1375	$20.00	$30.00	$10.00	50%	$13,750

JUSTIFICATION: MOU labor costs, which constitute 82% of the cost to process a returned check, have increased approximately 40.2% since the last fee increase on January 1, 1993, while workload has increased 32%.

RESOLUTION NO. ____________

Sonoma County Administration Building,
Santa Rosa, California

DATE ______________________

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF SONOMA, STATE OF CALIFORNIA, AUTHORIZING THE TREASURER-TAX COLLECTOR'S OFFICE TO INCREASE THE CHARGE FOR RETURNED CHECKS

WHEREAS, Government Code Section 6157(a) states that each County, District, or Department shall accept personal checks as payment of any tax, license, permit, fee or fine, and;

WHEREAS, a growing number of these personal checks are returned to the County Treasury as not acceptable for deposit due to insufficient funds, and;

WHEREAS, Government Code Section 6157(b) allows for the recovery of the actual costs incurred by the County for the processing of returned checks, and;

WHEREAS, a study of the actual costs incurred by the Treasurer-Tax Collector's Office has determined the actual cost of processing a returned check to be $30.15.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Supervisors of the County of Sonoma hereby authorizes all County Departments, Districts, Boards, Commissions and Agencies to enact a $30.00 handling charge for the processing of each returned check, and this charge shall become effective July 1, 2004.

SUPERVISORS:

BROWN:____ KERNS:_____ SMITH:_____ KELLEY:_____ REILLY:____

Ayes:_______Noes:_________Abstain:______Absent: ______

SO ORDERED

No.	Priority	Audit Recommendation	Staff Response	Committee Action
				round of budget reductions. Item 38, June 25, 2002) Day 1
5.3	1	The Board of Supervisors should direct the County's State Legislative Representative to pursue amendments to the Revenue and Taxation Code permitting the amount of the Tax Losses Reserve Fund to be set based on an annual analysis by the Tax Collector of the true risk of loss, based on the value of delinquent taxes and penalties for properties in default for five years or more.	Before pursuing a further reduction in the minimum balance in the Tax Losses Reserve Fund, there should be discussion with other counties to ascertain the balance that meets their economic comfort level and a discussion with our financial advisor about rating agency considerations. We receive periodic inquiries from New York brokerage firms as to the current balance in this Fund because it is perceived to be partial security for bonds sold by the County and other local jurisdictions using the tax roll to levy their general obligation bond rates.	Refer to the Legislative Committee for discussion and possible action. Day 1

Section 6	**Fees and Charges**			
6.1	1	The Board of Supervisors should adopt a policy requiring the following: (a) All charges and fees, and any changes to those charges and fees, be authorized by the Board of Supervisors and approved by ordinance as required	We agree with the basic concept of Recommendation 6.1, however, we do not believe that miniscule charges such as copy fees should require Board approval. Board approval of all charges and fees by	Approve for implementation and establish an annual report back to the Board of Supervisors during

* Consent

No.	Priority	Audit Recommendation	Staff Response	Committee Action
		by State law; (b) Departments to establish internal written procedures to provide for the review and update of fees and charges at least biennially; (c) A full cost analysis be completed by the department to provide a basis for setting fees and charges; and (d) Review by the Controller-Treasurer that all charges and fees submitted to the Board for authorization comply with State law, County policy, and cost accounting guidelines.	ordinance also appears unwieldy to recurring changes. The Board could require, as an alternative, periodic reporting of all fees and charges and date of last change and also required Board approval of all increases over a specified percentage.	budget workshops with an overview of current charges and fees to include expected revenues and extent of full cost recovery. **Budget Impact** Day 2
6.2	1	The Board of Supervisors should increase staffing of the Controller-Treasurer Department by adding a Senior Accountant position to oversee and coordinate cost accounting functions in the Controller-Treasurer Department.	We concur with the recommendation.	Refer to the Administration to study the timing and net revenue potential of adding these positions and report back to the FGOC. **Budget Impact** Day 2
6.3*	1	The Controller-Treasurer should develop and disseminate written procedures for charge and fee calculations and cost analysis.	We concur with the recommendation and will develop the written procedures for calculating the fees and charges. If	Approve for implementation Day 1

* Consent

No.	Priority	Audit Recommendation	Staff Response	Committee Action
			additional staffing is provided, our goal is for a June 30, 2003 completion date.	
6.4*	1	The Controller-Treasurer should provide quality control by reviewing charges and fees submitted to the Board for compliance with State law, County policy, and cost accounting guidelines.	We concur with the recommendation and will develop a checklist of costs to be included in the computation of fees and charges submitted for the Board's approval. Again with additional staffing, we plan to complete this by June 30, 2003.	Approve for implementation Day 1
6.5	1	The Controller-Treasurer should hire an additional Senior Accountant to oversee and coordinate cost accounting functions in the Controller-Treasurer Department.	We concur with the recommendation. If approvals are not given, completion of recommendations 6.3 and 6.4 will be on a slower timeframe.	Refer to the Administration to study the timing and net revenue potential of adding these positions and report back to the FGOC. **Budget Impact** Day 3
Section 7	**County-wide Cost Allocation Plan**			
7.1	2	The Controller-Treasurer should include the cost of security and parking control in the cost plan and allocate currently unallocated costs associated with common areas, parking	We generally agree. With respect to Sheriff's Security Costs, all departments, except for the Board of Supervisors and the Tax	Approve for implementation effective FY04 to include all

* Consent

Section 4. Collection of Unsecured Property Taxes

- **As of June 30, 2004, the Tax Collector's Office had not been able to collect at least $140 million in outstanding unsecured property taxes, penalties and interest issued over a 30-year period. Collection efforts have been impeded since many taxpayers may have changed names or moved and cannot be found. Furthermore, the Tax Collector does not utilize an automated collection management system, as does the Department of Revenue, and has not established adequate mechanisms to monitor collector performance and productivity.**

- **The inability to collect unsecured property taxes costs the taxing entities of Santa Clara County millions of dollars annually. In FY 2003-04, more than $11 million in current year taxes and $46 million in prior year taxes remained unpaid by June 30. In addition, penalties and interest on these unpaid taxes amounted to approximately $83 million. The County's portion of the cumulative loss totals more than $90 million.**

- **By implementing an automated collections management system, establishing improved methods to monitor collectors, and obtaining more effective collection tools utilized in other counties, the Tax Collector could significantly increase the collection of unsecured property taxes and related penalties and interest, far in excess of the cost of these improvements. Minimizing unpaid tax to 3.0 percent of the current year roll could result in as much as an additional $3 million annually, including more than $350,000 for the County General Fund.**

Background

In FY 2003-04, the Santa Clara County Tax Collector issued more than $265 million in taxes and collected more than $254 million in taxes on the unsecured roll, which typically includes assessments on items such as boats, airplanes, improvements on real estate and business equipment. There are also certain assessments, such as mobilehomes and structural improvements on leased land, that have been transferred from the secured roll to the unsecured roll when the taxes have become delinquent. Based on the unsecured data for FY 2003-04, the Tax Collector's collection rate was 95.8 percent. Despite such a high rate, the County and other taxing entities still lose millions of dollars annually from taxpayers that fail to pay. For example, as of June 30, 2004, the Tax Collector was unable to collect more than $11 million in unsecured property taxes issued for the year.

When taxpayers do not pay their tax bills, Tax Collector staff attempt to enforce collections using various methods. However, this can be challenging since many taxpayers may have changed names or relocated outside of the County or State. Collection enforcement is further hampered because the Department's collectors do not have access to some of the effective collection mechanisms used by other departments or tax collectors. Accordingly, Santa Clara County ranked in the bottom half of the 15 most populous counties by the percentage of unpaid taxes in FY 2003-04, as shown in the table on the next page.

Table 4.1

Comparison of Unsecured Property Taxes in the 15 Most Populous Counties in FY 2003-04

Ranking	County	Total Tax Charge	Tax Paid As of June 30	Tax Unpaid As of June 30	Percent Unpaid
1	Kern	$27,610,274	$27,046,781	$563,493	2.0%
2	Contra Costa	$45,053,936	$44,075,313	$978,623	2.2%
3	Orange	$182,607,338	$178,146,148	$4,461,190	2.4%
4	San Mateo	$104,508,079	$101,463,873	$3,044,206	2.9%
5	San Diego	$142,063,962	$137,577,242	$4,486,720	3.2%
6	San Francisco	$82,308,800	$79,196,334	$3,112,466	3.8%
7	Sacramento	$56,657,872	$54,451,127	$2,206,745	3.9%
8	San Bernardino	$84,185,244	$80,860,546	$3,324,698	3.9%
9	**Santa Clara**	**$265,954,516**	**$254,894,281**	**$11,060,235**	**4.2%**
10	Alameda	$116,402,217	$109,743,148	$6,659,069	5.7%
11	San Joaquin	$25,163,777	$23,611,961	$1,551,816	6.2%
12	Ventura	$38,452,529	$35,991,956	$2,460,573	6.4%
13	Fresno	$31,231,302	$29,141,338	$2,089,964	6.7%
14	Riverside	$56,479,231	$52,182,341	$4,296,890	7.6%
15	Los Angeles	$551,266,637	$492,067,357	$59,199,280	10.7%

Source: State Controller's Office, "FY 2003-04 Property Tax Collection Statistical Report"

Among the eight counties outperforming Santa Clara County, the average percentage of unpaid taxes was 3.0 percent. If the Tax Collector could lower Santa Clara County's percentage unpaid from 4.2 to 3.0 percent and maintain the lower rate, then the taxing entities within the County would earn as much as an additional $3 million annually, including more than $350,000 for the County General Fund. In the pages that follow, we discuss collection rates in Santa Clara County in recent years, explain weaknesses in the County's current methods of collecting unsecured property taxes, and provide recommendations to increase collections based on the experience of other departments and counties.

Collection Rates in Santa Clara County

While delinquent assessments remain on the delinquency list for 30 years, only assessments that have gone delinquent within the past three years are actively worked due to the statute of limitations on seizing and selling property.[1] Furthermore, the likelihood that the Tax Collector's Office will collect taxes, penalties and interest on assessments diminishes the longer they have been delinquent, so an emphasis has been placed on trying to collect current year delinquencies. To that end, the Tax Collector's Office has five collectors focused on current year delinquencies, and one collector dedicated to prior year delinquencies.

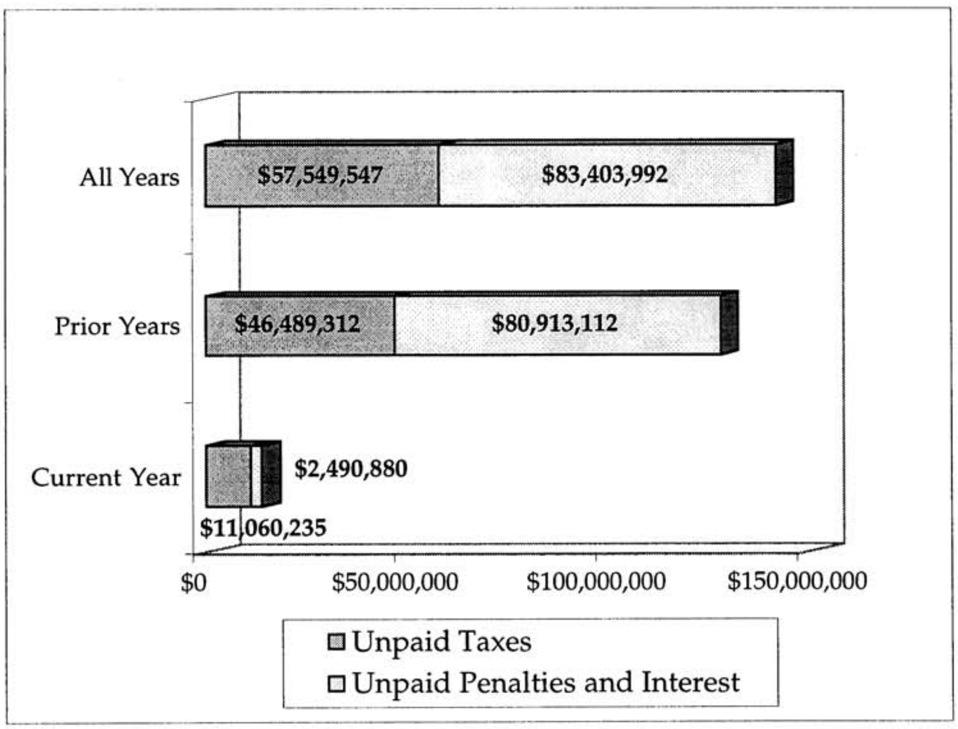
[1] Revenue and Taxation Code Section 6796.

Cumulative Receivables

As of June 30, 2004, more than $11 million in current year taxes and $46 million in prior year taxes were not paid, as shown in Chart 4.1. Penalties and interest on these unpaid taxes amounted to approximately $83 million.[2] In total, the Tax Collector's Office had not been able to collect at least $140 million in taxes, penalties and interest issued over a 30-year period. On the unsecured roll, since the Controller-Treasurer's Office apportions only the amounts paid as taxes to taxing entities, and retains the amounts paid as delinquent penalties or accrued interest for the County General Fund, the County's portion of the cumulative loss is more than $90 million.[3]

Chart 4.1

Unsecured Taxes, Penalties and Interest Unpaid as of June 30, 2004



Source: Tax Collector Accounting Division

Furthermore, of the $140 million outstanding, only 25 percent, or $35 million, represents unpaid taxes, penalties and interest from the past three fiscal years, which would be eligible for active collections by the prior year collector in FY 2004-05.

[2] Includes a 10-percent penalty that attaches on the delinquency date and an additional 1.5-percent penalty on the original tax amount that attaches on the first day of the third month and every month thereafter until paid, per Revenue and Taxation Code Section 2922.

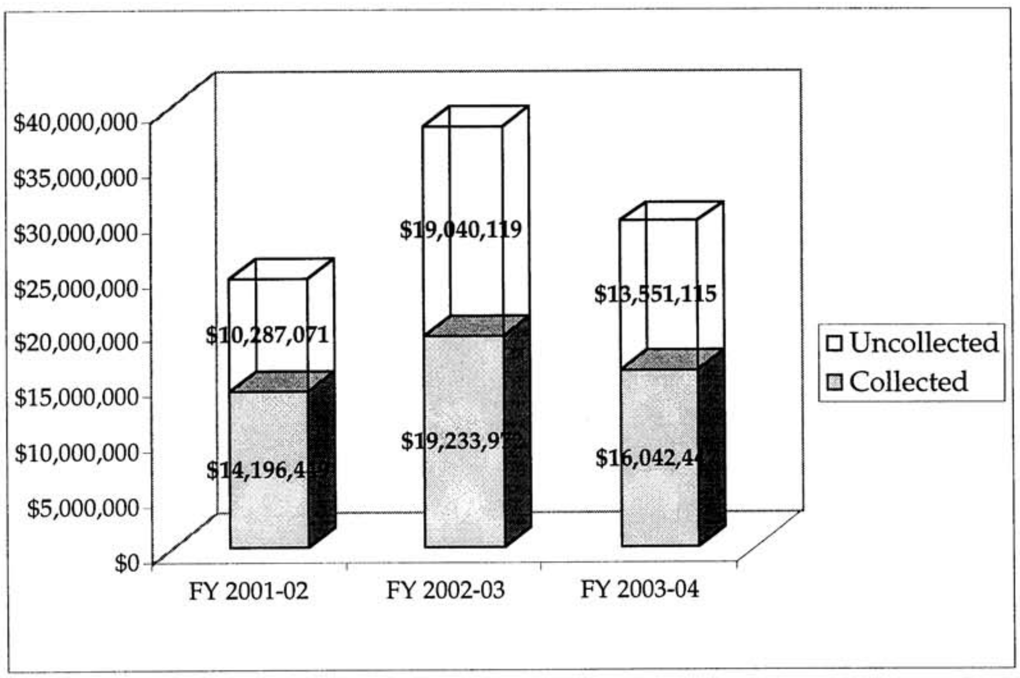
[3] Revenue and Taxation Code Sections 4655.4 and 4658.4 designates how unsecured property taxes, penalties and costs are apportioned. The County's share of unsecured taxes is currently 12.1 percent.

Individual Collection Rates

Based on data reported by current year collectors, we found that they played a role in collecting approximately $16 million of the delinquent taxes, penalties and interest issued in FY 2003-04. Since more than $13.5 million, consisting of approximately $11 million in taxes and $2.5 million in penalties and interest, remained unpaid that same year, we calculated that the FY 2003-04 delinquent collections rate was approximately 54 percent, which was equal to the three-year average rate of delinquent collections. Chart 4.2 shows the respective amounts of collected and uncollected delinquencies by June 30 in each of the past three fiscal years.

Chart 4.2

Unsecured Delinquent Collections as of June 30
In FY 2001-02, FY 2002-03 and FY 2003-04



Source: Tax Collector Accounting Division and Unsecured Collection Unit

Each year, current year collectors also worked the following:

- Current year taxes that were not yet delinquent;
- Delinquent taxes, penalties and interest from prior years; and,
- Cancellations on the unsecured roll.

In FY 2003-04, with these collections and the $16 million in current year delinquent collections, the total amount collected was more than $30.4 million, as shown in Table 4.2 on the next page.

Variation Among Collectors

While current year collectors are bringing in considerable sums of money, the amount of collections varies widely by collector. Table 4.2 also displays the total amount of unsecured collections for the five current year collectors, comprised of two senior and three junior level staff, in each of the past three fiscal years. No more than two of the five collectors collected more than the average in any one year. Furthermore, the range between the top and bottom performing collectors was $7.9 million last year, and the three-year average amount collected was approximately $7.2 million. In FY 2003-04, if collectors C, D and E raised their collections to $7.2 million, then they would have collected an additional $10.3 million.[4]

Table 4.2

Unsecured Collections for Current Year Collectors
<u>In FY 2001-02, FY 2002-03 and FY 2003-04</u>

Collector	FY 2001-02	FY 2002-03	FY 2003-04
A	$4,232,879	$5,323,860	$10,648,182
B	$6,198,306	$13,578,241	$8,564,964
C		$5,056,024	$4,607,096
D	$3,032,358	$15,973,260	$3,873,390
E	$7,998,566	$10,259,365	$2,747,989
Total	**$21,462,108**	**$50,190,749**	**$30,441,621**
Range	$4,966,208	$10,917,237	**$7,900,194**
One-Year Average	$5,365,527	$10,038,150	$6,088,324
Three-Year Average			**$7,164,000**

Source: Tax Collector Unsecured Collection Unit

Some of the variation among collectors in one year or between years for one collector can be attributed to variation in the number and dollar amount of assessments to which they are assigned as well their collection experience. Based on the Unsecured Delinquent Assessments Report that ran on November 5, 2004, assignments varied by no more than 490 assessments or $1.4 million. While junior collectors are typically assigned a fewer number of assessments, their collections in a month or year are not always lower than senior collectors. In fact, in two of the past three fiscal years, the top performer has been a junior collector. Differences in workload and experience are therefore not enough to justify the wide range in collector productivity. With Tax Collector staff collecting just over half of current year delinquencies and collections varying widely among collectors, room for improvement clearly exists. Based on our research, there are two main areas of weakness in how unsecured collections currently

[4] As discussed in Section 9, the Tax Collector plans to re-deploy staff to the collection of delinquent taxes on the unsecured roll as a result of the efficiencies created by the new Tax Collection and Apportionment System (TCAS). The Business Case for TCAS assumes each additional staff person will collect approximately $2 million, which will largely be a one-time increase.

operates: 1) the lack of structure in managing and monitoring collections, and 2) the lack of collection tools that have proven effective in other counties.

Tax Collector Lacks a Collection Management System

Every two weeks, the supervisor and current year collectors receive a report that lists alphabetically, by taxpayer name, all unsecured assessments that have not been paid or cancelled. Each time the report is run, assessments may be removed or added. Similarly, in July, the prior year collector receives a report for each of the past three years with assessments that have remained delinquent. These reports thus serve as the foundation for collectors in selecting assessments to work and for supervisors in monitoring collection activity. However, as will be discussed, the reports and other techniques employed to manage and monitor collections are not adequate.

How Delinquent Assessments Are Distributed and Worked

Each of the five current year collectors is assigned a section of the alphabet and tries to collect from the taxpayers whose name (either as an individual or business) falls within their section. As a result of this method of distribution, each collector is responsible for approximately 1,000 assessments that become delinquent in the fall. Each month, between 100 and 500 new assessments become delinquent and are added to the collectors' workload, according to the alpha distribution. In comparison, the prior year collector is responsible for working assessments that went delinquent within the past three years, but focuses on delinquencies from the last year. As of June 30, 2004, more than 50,000 delinquent assessments, including 3,521 from FY 2003-04, remained on the unsecured roll.

All collectors work on assessments with the biggest balance due first. Over the course of the year, they attempt to work all assessments with a balance due over $1,000 and, if time allows, those assessments with a balance due under $1,000. Using the unsecured delinquent report, collectors turn to their assigned letters, identify an assessment with a large balance and look it up in the Tax Information System to determine whether the taxpayer has any other current or prior year delinquencies. To avoid duplication of effort, collectors attempt to collect all delinquencies at once. When a taxpayer has an assessment that was delinquent in multiple years, a current year collector will handle that account and notify the prior year collector. A taxpayer may also have multiple assessments in one or more years that were not paid, so a collector will attempt to receive payment for all outstanding bills. Grouping the balance due of multiple delinquent assessments thus adds an extra step to the collection process.

How Collectors Monitor Their Actions on Assessments

Collectors have a limited number of actions they can take on delinquent assessments: receive payment in full, establish a payment plan, levy a bank account, seize and sell property, initiate a cancellation with the Assessor's Office, or flag an assessment as defunct (i.e., the account is no longer actively worked). For example, if at any time taxpayers are unwilling to pay their entire tax bill or fail to submit a monthly payment, collectors have the power to levy bank accounts and seize property. The process starts by calling the taxpayer and then sending three notices, the last of which is sent via certified and regular mail and gives the taxpayer 10 days to respond. If taxes remain unpaid on the 11th day, then collectors proceed with the levy or seizure. However, since collectors manually track their phone calls and correspondence on calendars, in files, on notepaper and/or in Excel, it is easy for them to overlook what they have done or what they should be doing next and when.

How Supervisors Monitor Activity on Individual Assessments

Because actions are limited, collectors must be aggressive or taxpayers will not take them seriously. However, as exhibited by the variation in collections previously described, the level of aggressiveness among collectors can vary. In order to monitor collection activity, an Excel spreadsheet was established for collectors to track 10-day notices, levies, seizures and follow-up. A senior collector and the supervisor are responsible for reviewing this spreadsheet as well as another spreadsheet tracking payment plans. While both spreadsheets should ideally be checked once a week to keep the collectors accountable, we were told they are not reviewed this often, since they are time consuming to review and not as helpful as intended.

The supervisor also uses the bi-monthly unsecured delinquent report to identify assessments with a large balance due and look up their status in the Tax Information System. For example, if the supervisor sees that the taxpayer has not been contacted or that a 10-day notice has not been issued, then the supervisor speaks with the collector in charge of the assessment. The supervisor also tries to meet with collectors every month to review and discuss their work, and coordinate with a senior collector to make sure that collectors are levying and seizing after the final 10-day notice. Therefore, other than speaking with staff and looking up assessments, the supervisor lacks a quick and easy way of monitoring the type of activity and quality of work on individual accounts.

How Supervisors Monitor Overall Collections Activity

Collectors are responsible for compiling monthly statistics. They previously documented payments monthly by writing down the payment date, assessment number, taxpayer and amount paid. However, starting in October 2004, the Systems Division set up a report to automate this process. The report provides a monthly summary of how many assessments were paid and how much was collected by each collector and the unit. Despite this automation, collectors continue to document collections (i.e., taxpayer and amount paid) from bulk transfers, bankruptcies, seizures and sales, mobile homes, estates, levies, and redemption. All statistics are then compiled in a report that shows the collections for the month and year-to-date. However, the available statistics only allow supervisors to compare how one collector is performing compared to another. They do not show how many assessments or how much tax, penalties and interest was collected as a percent of the total available to collect. Furthermore, the Tax Collector has not set any goals for collectors and lacks a formal process for coaching collectors with poor performance and productivity.

How to Improve Collection Management and Monitoring

Because collectors use a variety of manual methods to conduct collections and supervisors lack tools to effectively monitor collection activity, the Tax Collector should implement a collection management system to manage the accounts being worked and provide supervisors with useful reports. A collection management system, such as the Columbia Ultimate Business System module implemented by the Department of Revenue (DOR) in 1988, provides organization to the collection of accounts. One of the most significant features of the system is that it provides each collector with a work-in-progress (WIP) list. Through the WIP list, collectors are provided with accounts to work, based on parameters set by supervisors, and actions to take. The system also has features to send correspondence to debtors and establish and monitor payment plans, and provides supervisors with a daily activity report and a monthly collection performance report. The Information Systems Manager of the Department of Revenue commented, "Our first year of operation using the system increased our revenue by over $2 million. We attribute that increase to the organization that the system brought to our staff and to our operation in maintaining priority and a constant set of rules and guidelines by which our staff worked."[5]

Wanting similar features for unsecured collections, tax collectors in Orange and San Mateo Counties developed their own collection management systems, though San Mateo County's system does not provide any tickler features. In Santa Clara County, the team overseeing the development and implementation of the new Tax Collection and Apportionment System (TCAS) already has plans to include a case management and workflow scheduler with features such as alerts, a WIP list, supervisor assignments, automatic flagging for responses and actions, and correspondence. We support the implementation of this scheduler with TCAS, which also will provide other efficiencies such as switching from paper to electronic receipts for unsecured collections.

At the same time, the Tax Collector should assign a reference number to each taxpayer with unsecured property and bill all assessments under that number (an example is provided as Attachment 4.1). This would reduce the number of bills that are issued as well as the time taken to group the balance due on a taxpayer's multiple delinquent assessments. This recommendation also requires the Tax Collector to redistribute the unsecured collection workload numerically by reference number. Current year collectors could be assigned reference numbers with current and prior year delinquencies, while the prior year collector works only those numbers with delinquencies from prior years. Such parameters could be set in the collection management system so that the appropriate accounts appear in each collector's WIP list. For more than seven years, Orange County has grouped assessments for a single taxpayer by a Tax Collector Reference Number and divided these numbers proportionally among the collectors. Each collector has a range of numbers and works the numbers that show up in their queue when one or more associated assessments are delinquent. As a result, all delinquent assessments for a taxpayer are worked at once.

[5] Columbia Ultimate Business System Website, http://www.columbiaultimate.com/products/product_RPCS.htm.

How to Improve Collector Performance and Productivity

In addition to the collection management system, the Tax Collector should establish goals for monitoring the performance and productivity of individual staff, and a formal process for coaching collectors who are not meeting their goals. The Tax Collector may also consider including a method of recognizing excellent performance. The former part of our recommendation may require meeting and conferring with employee representatives prior to implementation. Patient Business Services (PBS) in the Santa Clara Valley Health and Hospital System faced a similar experience when it restructured collections, but was successful in establishing both goals and a coaching process. At PBS, staff have a goal number of accounts that should be worked each week, and the goal is adjusted based on planned absences, such as vacations, but not unplanned absences, such as sick leave. In evaluating staff, supervisors look at both the <u>number of accounts</u> worked and the <u>quality of the work</u>. Supervisors also use a reasonableness test to recognize whether a problem is a one-time issue or a pattern of performance. For staff who do not meet expectations, PBS has established a structured process that supervisors follow. The process starts with coaching staff, can escalate to verbal and written warnings, and may involve other appropriate personnel actions based on whether performance improves. A similar process exists for unsecured collectors in Fresno County. Furthermore, unsecured collectors in Orange County are required to work a minimum of 28 accounts per day, but in evaluating their performance, the supervisor considers the number of accounts worked each day and month, as well as the percent of accounts being collected.

Collectors Are Missing Effective Skip Tracing Tools

Another factor impeding unsecured collections is the ability of taxpayers to "skip out" or disappear by changing their names or moving outside the County or State. This comes to the attention of Tax Collector staff when bills or correspondence are returned. Staff are then responsible for attempting to locate the taxpayers through skip tracing, a process through which staff search for additional or new contact information. One of the first steps taken is to look up whether a payment was submitted in a prior year with a check that contains a different phone number or address. However, if the contact information is out of date or an image of a check cannot be found, then collectors look for taxpayers using several other resources with electronic access, such as going on-line, or manual access, such as making a phone call or conducting fieldwork, before asking for permission to make an account defunct. Attachment 2.2 lists the resources currently used by the Tax Collector's Office.

However, the Tax Collector's Office does not have electronic access to a skip tracing service and the Department of Motor Vehicles (DMV) information database, though collectors can call the DMV for information on taxpayers. These services provide information, such as aliases, old addresses, phone numbers and Social Security numbers that might not be available through other means. The DMV database can also be used to automate the process of attaching registration withholds on boats and jet skis for which unsecured property taxes have not been paid.[6] Five of six other counties

[6] Withholding vessel registration for delinquent taxes is provided for by California Vehicle Code Section 9880.

surveyed, as well as the County's Department of Revenue (DOR), use both a skip tracing service and the DMV database on-line, and praised their usefulness in locating taxpayers. Furthermore, four of the five counties have selected Accurint as their skip tracing service because of its cost-effectiveness. When the counties submit a name to Accurint, they are charged 25 cents for the search if an address is found.[7] Other skip tracing services may charge for all names submitted, regardless of whether they hit on an address, or a flat rate for unlimited submissions. After implementing Accurint in Orange County, collectors increased the number of accounts that could be worked from 20 to 28 per day – a 40 percent increase. The Santa Clara County Sheriff's Department also uses Accurint to find individuals for investigations, and we recommended the service or something similar to the Public Health Department for conducting disease investigation.

The Tax Collector should provide collectors with electronic access to a skip tracing service and the DMV information database in order to locate taxpayers in less time, thereby increasing the number of accounts that can be worked in a day. These tools could also aid collectors in finding accurate addresses for more bills that are returned. Because of time constraints, collectors currently focus on finding addresses for bills worth more than $5,000, though addresses for other bills may be pursued if time allows. In addition to providing access to unsecured collectors, the tools could be used by Tax Collector staff locate owners of tax-defaulted secured property before being auctioned, and taxpayers whose tax bills or other correspondence have been returned. (Refer to Section 5 for more information on returned mail.)

For all of its uses, Accurint is costing the Orange County Tax Collector between $350 and $600 per month, depending on the number of searches conducted at 25 cents each. In comparison, a subscription to Merlin costs 25 cents per search in a people locator database, or a flat rate for an unlimited number of searches in 24 databases, including a people locator, residential locator, property database and phone directory.[8] The flat rate ranges from $325 per month for up to five users and $495 per month for up to 10 users (a small discount is provided for subscribing on a quarterly or annual basis). Because counties and departments have different needs, the Tax Collector should decide how many staff will have access and estimate how many searches will be conducted in order to select an appropriate skip tracing service for the office. Accessing the DMV information database, on the other hand, would not create additional costs for the Tax Collector's Office on an ongoing basis. However, staff would need to fill out a detailed application and work with the Information Services Department to receive and install the connection.

Alternative Methods for Collecting Delinquent Taxes

In addition to the recommended operational improvements already discussed, we identified two collection methods that are not currently employed but would provide good alternatives for collecting delinquent taxes if other attempts fail. These methods

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[7] Accurint Website, http://www.accurint.com.

[8] Merlin Website, http://www.merlindata.com.

consist of 1) utilizing the State Tax Intercept Program, and 2) transferring secured property taxes not recovered at auction to the unsecured roll.

Utilizing the State Tax Intercept Program

The Tax Collector currently does not have taxpayer Social Security numbers. As a result, the Tax Collector cannot use the information to locate taxpayers or take advantage of the State Tax Intercept Program, which permits a government agency to place a lien against potential State income tax refunds when a taxpayer has an outstanding debt to the agency. However, all six other counties surveyed have used the program, and several noted their success. These counties also have utilized a variety of methods to obtain Social Security numbers. They include contacting taxpayers directly to request the numbers, submitting names to a skip tracing service or the Franchise Tax Board, or requesting the numbers from the assessor, who can collect them on the property statement as part of the annual assessment filing.

The third method is an option under Revenue and Taxation Code Section 408 (c), as follows:

> Upon the request of the tax collector, the assessor shall disclose and provide to the tax collector information used in the preparation of that portion of the unsecured roll for which the taxes thereon are delinquent. The tax collector shall certify to the assessor that he or she needs the information requested for the enforcement of the tax lien in collecting those delinquent taxes. Information requested by the tax collector may include Social Security numbers, ...

Similarly, the Tax Collector should establish a method of obtaining taxpayer Social Security numbers in order to utilize the State Tax Intercept Program. Based on our survey of other counties, submitting names, particularly common names, to a skip tracing service or the Franchise Tax Board could result in the wrong Social Security number being queried and the wrong taxpayer having his or her tax refund intercepted. Such a mix-up has occurred in Fresno County and Los Angeles County. Other counties have gotten around this issue by using a skip tracing service that provides both Social Security numbers and addresses, so that staff can verify that the information provided is a correct match before passing it along to the State Tax Intercept Program. However, the most reliable method of obtaining the numbers would be through the Assessor's Office, since the numbers would be provided directly by taxpayers.

In order for the Assessor's Office to prepare the unsecured roll, taxpayers are required to complete and submit a property statement, which asks for the taxpayer's federal employer identification number. Assessor staff acknowledged that taxpayers do not fully comply in completing that field, and a small percentage provides a Social Security number in place of the federal employer identification number. The Assessor's Office has historically accepted and processed filings without federal employer identification numbers. Furthermore, the State Board of Equalization (BOE) has denied previous efforts by the Santa Clara County Assessor and the California Assessors Association to revise the form to require <u>either</u> the taxpayer's federal employer identification number <u>or</u> Social Security number. Assessor staff commented that the BOE, which derives its authority to prescribe and approve the content of property statements from Revenue and Taxation Code Section 452, has denied this revision out of concern over identity theft. However, the collection of Social Security numbers is critical to ensuring the legitimacy of a taxpayer's identity and enforcing the lien on delinquent unsecured taxes, which are levied against property that is not secured by land. The Board of Supervisors should urge the State Legislature to amend the Revenue and Taxation Code to require taxpayers to provide federal employer identification numbers, Social Security numbers or taxpayer identification numbers, when applicable, on the property statements used to prepare the unsecured roll.

When the Tax Collector obtains Social Security numbers from the Assessor, State law already allows for the cost to be passed on to the taxpayer whose unsecured property taxes are delinquent. Revenue and Taxation Code Section 408 (c) further states:

> ... and the assessor shall recover from the tax collector his or her actual and reasonable costs for providing the information. The tax collector shall add the costs described in the preceding sentence to the assessee's delinquent tax lien and collect those costs subject to subdivision (e) of Section 2922.

In advance or in lieu of State law being amended, the Tax Collector should work with the Assessor to determine what it will cost to obtain Social Security numbers or taxpayer identification numbers from property statements. Since the property statements currently do not require taxpayers to provide these numbers, Assessorstaff suggested establishing a project to determine whether the process would be cost effective, and if so, to provide a basis for their cost recovery. Through the project, the Tax Collector could identify 100 taxpayers with delinquent taxes on the unsecured roll and provide information, such as individual or business name and assessment number, to the Assessor. We agree that the project should be established, and also recommend that the Tax Collector compare the project's cost-effectiveness with that of a skip tracing service.

Transferring Secured Taxes Not Recovered at Auction

State law requires the Tax Collector to transfer unpaid taxes, penalties and interest on secured property that is acquired by a public entity to the unsecured roll if not paid through escrow or the eminent domain award. Revenue and Taxation Code Section 5084 specifically states that such unpaid taxes, penalties and interest "...shall be transferred to the unsecured roll pursuant to Section 5090 and are collectible from either the person from whom the property was acquired or the public entity that acquired the property." However, State law does not provide for a similar transfer when taxes, penalties and interest on secured property, which has been tax-defaulted for more than five years, are not recovered at auction.

During the 2001 auction for tax-defaulted secured property, the Acting Tax Collector reduced the auction price of three parcels from $974,000 to $90,000, per the authority given to him by State law. While the higher price was not acceptable to bidders due to the land being severely damaged from an earthquake, the parcels were able to sell at the lower price of $90,000. Following the auction, the Tax Collector's Office stated that the three parcels could not have been sold at the higher price, which represented the outstanding taxes, penalties and interest, because the land was overvalued. Not accounting for the loss in penalties and interest on these three parcels, the County realized a tax loss of $337,000, which was ultimately a loss to the General Fund. The County uses the Teeter method of apportioning tax on the secured roll. Through this method, the County provides taxing entities with their entire share of the secured roll and deposits all penalties and interest into a Tax Loss Reserve Fund, which is eventually transferred to the County General Fund as revenue or to cover a tax loss. The County thus takes the risk of losing taxes, penalties and interest on tax-defaulted property, as it did in 2001.

The situation at the 2001 auction was unique, since the Tax Collector has a proven track record of being able to recover all delinquent taxes, penalties and interest on tax-defaulted property sold at auction. However, the magnitude of the loss in 2001 suggests that the Tax Collector should have some other method of attempting to recover tax revenues. Accordingly, the Board of Supervisors should urge the State Legislature to amend the Revenue and Taxation Code to require that taxes, penalties and interest on secured property that is not recovered at auction be transferred to the unsecured roll and collected from the owner at the time the taxes became delinquent.

CONCLUSION

As of June 30, 2004, the Tax Collector's Office had not been able to collect at least $140 million in outstanding unsecured property taxes, penalties and interest issued over a 30-year period. The County's portion of the cumulative loss totals more than $90 million. Collection efforts have been impeded since many taxpayers may have changed names or moved and cannot be found. Furthermore, the Tax Collector does not utilize an automated collection management system, as does the Department of Revenue, and has not established adequate mechanisms to monitor collector performance and productivity. By implementing an automated collections management system, establishing improved methods to monitor collectors, and obtaining more effective collection tools utilized in other counties, the Tax Collector could significantly increase the collection of unsecured property taxes and related penalties and interest, far in excess of the cost of these improvements. Minimizing unpaid tax to 3.0 percent of the current year roll could result in as much as an additional $3 million annually, including more than $350,000 for the County General Fund.

RECOMMENDATIONS

The Tax Collector should:

4.1 Implement a case management system, as planned with the Tax Collection and Apportionment System. (Priority 1)

4.2 Establish goals for monitoring the performance and productivity of individual staff and a process to coach collectors who are not meeting their goals. Both the quantity and quality of work should be incorporated into the goals, which could be based on best practices in other departments or counties. (Priority 1)

4.3 Assign a reference number to each taxpayer with unsecured property, bill all assessments for the taxpayer under that number, and redistribute the unsecured collection workload numerically by reference number. (Priority 1)

4.4 Provide staff with electronic access to a skip tracing service and the Department of Motor Vehicles information database to locate taxpayers of delinquent property taxes. (Priority 1)

4.5 Establish a project with the Assessor's Office to determine the cost effectiveness of obtaining Social Security numbers or taxpayer identification numbers from property statements, and compare the project's cost-effectiveness with that of a skip tracing service in order to utilize the State Tax Intercept Program. (Priority 2)

The Board of Supervisors should urge the State Legislature to:

4.6 Amend the Revenue and Taxation Code to require taxpayers to provide federal employer identification numbers, Social Security numbers or taxpayer identification numbers, when applicable, on the property statements used to prepare the unsecured roll. (Priority 1)

4.7 Amend the Revenue and Taxation Code to require that taxes, penalties and interest on secured property that is not recovered at auction be transferred to the unsecured roll and collected from the owner at the time the taxes became delinquent. (Priority 1)

COSTS AND BENEFITS

Implementing these recommendations would create minimal one-time and ongoing costs that would be offset by the receipt of significant additional unsecured property tax revenue. The cost to implement a collection management system is already figured into the new Tax Collection and Apportionment System (see Section 8), but the Tax Collector would need to assign staff to developing goals and a formal coaching process. In addition, providing collectors with access to a skip tracing service could cost an average of $450 per month, depending on how many staff have access and the number of searches conducted, and connecting to the Department of Motor Vehicles information database would require the work of both Tax Collector and Information Services Department staff. Finally, when the Tax Collector obtains Social Security numbers or taxpayer identification numbers from the Assessor in order to utilize the State Tax Intercept Program, the cost can be passed along to the taxpayer whose unsecured property taxes are delinquent. By minimizing unpaid tax to 3.0 percent of the current year roll, the County's taxing entities could earn as much as an additional $3 million annually, including more than $350,000 for the County General Fund.

Attachment 4.1

Unsecured Tax Bill

Unsecured property taxes are those in which the lien is against the assessee.
Move your mouse over the section of the bill to know more about that information and what it means to you.

2001 COUNTY OF ORANGE UNSECURED PROPERTY TAX BILLING STATEMENT
JOHN M. W. MOORLACH, C.P.A., CFP
TREASURER-TAX COLLECTOR
P.O. BOX 1982, SANTA ANA, CA 92702
12 CIVIC CENTER PLAZA, ROOM G40-PHONE: (714) 834-3411
OFFICE HOURS: 8:00 A.M. - 5:00 P.M. MONDAY - FRIDAY

UNSECURED STATEMENT SAMPLE 1 PAGE 1

TAX COLLECTOR REFERENCE NO. 1234567
STATEMENT AS OF: 09/24/2001

ACCOUNT SUMMARY

PREVIOUSLY BILLED ASSESSMENTS:
DELINQUENT UNPAID BALANCE DUE: $283.69
TOTAL PREVIOUSLY BILLED ASSESSMENTS: $283.69

BILL TAXPAYER
123 MAIN STREET
SUITE 123
SANTA ANA CA
92705

TOTAL AMOUNT NOW DUE: $283.69

SEND CHANGE OF ADDRESS OR QUESTIONS ON ASSESSMENTS, VALUES OR EXEMPTIONS TO:
COUNTY ASSESSOR
P.O. BOX 149, SANTA ANA, CA 92702
BOATS AND AIRCRAFT: (714) 834-2772
BUSINESS EQUIPMENT, FIXTURES: (714) 834-2930
HOMEOWNERS' EXEMPTION: (714) 834-3821
CHANGE OF ADDRESS (714) 834-2938
SEE REVERSE SIDE, ITEMS 9 THROUGH 14

FOR INFORMATION ON COMPUTATION OF PROPERTY TAX CONTACT:
AUDITOR-CONTROLLER
(714) 834-2456

FOR INFORMATION ON CURRENT YEAR PAYMENTS OR PRIOR YEAR DELINQUENCIES CONTACT:
TAX COLLECTOR
(714) 834-3411

PREVIOUSLY BILLED DELINQUENT UNPAID ASSESSMENTS:

EFFECT. DTE	TAX YEAR	ASMNT #	ASSESSMENT TYPE	BASE TAX AMOUNT	INTEREST & PENALTIES	FEES	AMOUNT PAID	BALANCE DUE
06/08/2001	2001	717072	881 BUSINESS ASSESSMENTS	2,356.98	235.69	48.00	2,356.98	283.69
			TOTALS:	2,356.98	235.69	48.00	2,356.98	283.69

THERE WILL BE A $30.00 FEE FOR EACH CHECK RETURNED BY THE BANK FOR ANY REASON
DETACH HERE AND RETURN STUB WITH PAYMENT
PENALTY & FEE INFORMATION ON REVERSE SIDE - SEE ITEMS #5 AND #6 NOTICE: THIS STATEMENT IS PAYABLE ON DEMAND
OPTION TO PAY BY CREDIT CARD USING YOUR TOUCH-TONE TELEPHONE NOW AVAILABLE. SEE SECTION 8 (B) ON REVERSE SIDE

TC REF. NO.	ASSESSEE NAME	STATEMENT DATE	AMOUNT DUE NOW	CK DG
1234567	BILL TAXPAYER	09/24/01	$283.69	3 *

ENTER AMOUNT BEING PAID:

2001 COUNTY OF ORANGE UNSECURED PROPERTY TAXES

MAKE PAYABLE TO AND MAIL TO:
ORANGE COUNTY TAX COLLECTOR
P.O. BOX 1982
SANTA ANA CA 92702

SEND CHANGE OF ADDRESS DIRECTLY TO COUNTY ASSESSOR. SEE ABOVE FOR MAILING ADDRESS.
PLEASE RETURN THIS STUB WITH PAYMENT
WRITE TC REF. NO. ON CHECK

1074-446 2001

140000000000000003 0312345670000090000010310100000283691130010000287

Attachment 4.2

Skip Tracing Resources Currently Used by Tax Collector Staff

Resource	Information Provided	Electronic Access	Manual Access	No Access
Tax Collector's Information System	Address	X		
Remittance Processing System	Address and phone number	X		
Assessor's Information System	Address	X		
Haines Directory	Address	X		
Voter Registration Index	Address, phone number and birth date	X		
Secretary of State's Business Portal	Business contact information	X		
Recorder's Imaging System	Recorded documents	X		
Social Security Death Index	Date of death	X		
On-Line Search Engines	Address and phone number	X		
Experian Data System	Address	X		
Telephone Directory	Phone number		X	
Directory Assistance	Phone number		X	
Fieldwork	Contact information		X	
Municipal Business License Division	Business license and contact information		X	
Alcohol Beverage Control	Liquor license and contact information		X	
Postmaster	Address		X	
Department of Motor Vehicles Database	**Alias, address and phone number**		**X**	
Federal Aviation Administration Registry	Aircraft ownership		X	
California State Bar	Attorney license and contact information		X	
Landlord Inquiry Letter	Address and bankruptcy information		X	
Credit Bureau Reports	Address		X	
Skip Tracing Service	**Alias, address, phone number and social security number**			**X**

Source: Tax Collector Unsecured Collection Unit

Section 5. Updating Taxpayer Addresses

- **Using addresses provided by the Assessor, the Tax Collector issues more than 600,000 tax bills annually. Although the Tax Collector has the legal responsibility to prepare and mail tax bills, the legal responsibility for maintenance of taxpayer addresses rests with the Assessor. The Assessor will not accept change-of-address requests from third parties, including the Tax Collector, without written documentation. Therefore, in some cases, the Tax Collector has a correct address but the Assessor's address remains incorrect.**

- **In Calendar Year 2004, the Tax Collector worked 7,612 secured and supplemental tax bills returned due to incorrect addresses. The Tax Collector collected payment for 6,242 bills, resulting in collections of more than $28.3 million. However, since the Assessor will not accept new addresses from the Tax Collector without written records, some bills will be mailed to incorrect addresses again this year. The proportion of addresses that have been corrected by the Tax Collector but not by the Assessor is undetermined, but could be significant.**

- **In addition, because the Tax Collector does not utilize all available address-location tools, as many as 63 percent of parcels that generate returned mail are receiving three or more mailings. As a result, the process of researching and correcting taxpayer addresses and processing new tax bills is inefficient.**

- **By developing procedures with the Assessor's Office to validate new billing addresses not currently accepted by the Assessor, printing change of address forms on tax bills, utilizing additional address location tools, and modifying State law to enable mailing to the "best known address," the volume of returned tax bills would be reduced and the collection of property taxes would be accelerated.**

Undeliverable Tax Bills

In an effort to fulfill its legal responsibility to collect taxes from Santa Clara County property owners, the Tax Collector mails more than 600,000 tax bills every year. Pursuant to State law and State Board of Equalization rules, the taxpayer's mailing addresses are provided by the Assessor's office. The addresses are provided as part of the annual list of assessed properties and their value, known as the tax "roll." Every year, a small proportion of bills are returned to the Tax Collector as undeliverable. Although State law obligates property owners to pay their taxes whether they receive a bill or not, many taxpayers who don't receive bills fail to pay timely. More than 15 percent of late-payment penalty appeals stem from incorrect mailing addresses.

Incorrect addresses delay collection of taxes, increase mailing and research costs, increase late-payment penalties and appeals of those penalties, and aggravate taxpayers. Therefore, ensuring that roll addresses are correct is essential to the effective collection of taxes.

The Nature of Mail Returned to the Tax Collector

According to the Tax Collector, 10,437 pieces of mail – reflecting almost 7,000 bills or less than one percent of bills issued – were returned by the postal service as undeliverable in Calendar Year 2004. Returned mail from 2003 was also worked in 2004. The amounts due on bills returned in Calendar Year 2004 ranged from a few pennies to as much as $774,856.

The histories of returned bills for 30 properties were obtained and examined. The majority (63 percent) of these properties had at least three returned bills over the course of months or years. The most common reasons for return on these 30 properties were:

- Expiration of the forwarding order;
- An unknown address; and,
- Part of the address, such as the post office box number, was missing.

At least 27 percent of returned mail was due to incomplete or malformed addresses. There are numerous Internet-based services available to correct malformed addresses. Some of these services are inexpensive, and will process and correct large batches of addresses. For instance, the entire annual secured roll could be corrected by DesertSoft for less than $5,000 a year, based on the company's published rates as of March 2005. The Tax Collector should correct malformed addresses prior to mailing the annual bills, and provide these corrections to the Assessor. The Assessor should update the assessment roll with these corrections.

In addition, the sample of returns on 30 properties contained two instances of mail returned on account of the death of the taxpayer. In one of these instances, bills were mailed to a deceased taxpayer eight times. The repeated returns began in October 2002 and continued through January, 2005, despite the fact that Tax Collector staff had identified the property as probated in 2003.

An examination of the reasons for returns on all undeliverable mail in Calendar Year 2004, however, showed that the amount of mail specifically designated as returned on account of the death of the recipient was nominal. The most common reasons for return were incorrect or incomplete addresses, the absence of active forwarding addresses, or unspecified "undeliverable" or "return to sender" notices.

A closer review of returns received from January through June 2004, was performed. During that period, there were 4,135 bills returned on 2,454 properties for an average of 1.7 pieces of undeliverable mail per property. The number of undeliverable bills returned for any given property during the six-month period ranged from one to 11. A small proportion of properties (12 percent) generated 31 percent of all returns received within those six months.

Efforts to Update Mailing Addresses

Efforts by the Assessor's Office

According to the Assistant Assessor, the Assessor's Office makes a significant effort to have all address changes researched and keyed into the file prior to the date that the Tax Collector downloads the file to print the tax bills. Efforts employed by the Assessor include:

- Updating addresses based on Post Office forwarding service information on mail returned to the Assessor and copies of envelopes returned to the Tax Collector when provided to the Assessor;
- Mailing at least one communication to every assessee every year;
- Employing extra-help staff to visit businesses and update addresses as appropriate; and,
- Updating addresses based on signed change-of-address forms delivered in person, by mail or by fax.

The Assessor's Office recently has expressed interest in exploring further options for address updates. However, for reasons of taxpayer security detailed later in this report, the Assistant Assessor said that currently an address in the Assessor's system will not be changed based on telephone requests, requests from non-owners, or because a third party – such as the Tax Collector – thinks they know a better address.

Efforts by the Tax Collector

<u>Mailing Address Change Forms</u>

Enclosed in the envelope with outgoing bills is a tri-fold flyer. Most of the flyer is dedicated to general tax information. A portion of the tri-fold is a change-of-address form that is pre-addressed for return to the Assessor's office. However, this form is not visible unless the flyer is opened. A photocopy of the flyer is provided as Attachment 5.1.

Taxpayers who receive a bill from the Tax Collector at their correct address may be discouraged from submitting change-of-address forms to the Assessor on the assumption that the County already has the correct address. When the Tax Collector tries a new address for a bill that has been returned, the back of the envelope in which the bill is re-mailed should have a notice explicitly informing taxpayers that they must complete the enclosed change-of-address form in order to ensure receipt of future bills.

In addition, this notice should be clearly visible on the Tax Collector's website, which should provide a hyperlink to the Assessor's change-of-address form. In addition, the Tax Collector should ensure that during the next bill re-design, the stubs are printed to include a change-of-address form on the back. Returned forms or their likeness should be forwarded to the Assessor for updating the assessment roll.

Researching Returned Mail

The Tax Collector has assigned an alternately staffed-Account Clerk whose primary duty is to research returned secured and supplemental tax bills, locate an alternative address, print a new label and re-mail the bill. This position is funded entirely by a grant from the State Property Tax Administration Program (PTAP). Other returned mail from redemption and unsecured rolls is researched by other staff as time allows. The following table depicts the successful efforts of the secured and supplemental returned mail program during Calendar Year 2004.

Table 5.1

Grant-Funded Returned-Mail Processing

	Pieces of Mail	Bills Worked	Bills Paid	Revenue Value
CY 2004*	11,450	7,612	6,242	$28,305,947
*Includes prior backlog				

Source: Santa Clara County Tax Collector

In Calendar Year 2003, the clerk also worked 6,619 bills and collected $25.6 million.

The clerk attempts to obtain new addresses from three sources:

- The postal service forwarding address sticker on the returned envelope;
- The situs address or new mailing address if updated by the Assessor in the Assessor's Information Management System (AIMS); and,
- Addresses on the images of checks previously received by the Tax Collector.

The addresses found by the clerk are entered into the Tax Collector's Tax Information System (TIS). The Tax Collector does not make maximum use of these addresses because there is no attempt currently to match these addresses against the Assessor's addresses prior to mailing the annual bills.

We recommend that the Tax Collector's Systems staff query the Tax Information System "label request flag" and "batch-paydate" fields to obtain a list of parcel numbers for which the return-mail clerk has generated a new mailing label and for which payment was received. The returned mail clerk should research the parcel numbers to determine whether the last mailing address is the same as that contained in the Assessor's roll. If not, the clerk should generate new mailing labels for the annual bills, and should also notify the Assessor of the discrepancies. The Tax Collector is concerned that existing statutes would require mailing bills to the Assessor's address, whether or not the Tax

Collector also mails bills to addresses believed to be accurate. Whether existing law would permit the Tax Collector to mail only one bill to its best address is not clear. For instance, Section 2610.5 of the Revenue and Taxation code indicates that it would be permissible for the Tax Collector "to mail or electronically transmit the tax bill to the address provided on the tax roll *or electronic address provided and authorized by the taxpayer to the Tax Collector*." We recommend that the Board of Supervisors urge the Legislature to clarify the law to explicitly permit the Tax Collector to mail the annual tax bill to the address the Tax Collector deems most likely to be correct.

Address Research Practices

When the returned-mail program was established, management considered the volume of returns and decided that it would be more fruitful to try to re-mail many bills than to actively research a smaller number of bills. Therefore, the address research is carried out without the use of the Internet, telephone books, software, databases other than the Assessor's system (AIMS), or other methods that might be used to locate a taxpayer.

Upon further examination, however, it is not clear that the choice is between repeatedly mailing a large number of bills or researching a small number of bills. It is probable that by investing a few more minutes per bill, the accuracy of mailing would be increased, thereby reducing the volume of returned mail and increasing collections without increasing work hours.

Using data similar to the actual results from 2004, we built a hypothetical model in which the clerk spends two additional minutes on skip-tracing efforts per bill. For instance, the clerk could use an Internet-based address service – such as Accurint – that requires nothing more than typing the name of the taxpayer into a database. Such a service shows the taxpayer's name and former address that could be matched to the returned-bill address to ensure that the new address is for the same person.

The model assumes an overall improvement of 15 percent in the successful location of the taxpayer. This assumption is reasonable given that, when Orange County unsecured collectors began using an Internet-based address-location service, the number of accounts each collector was able to work increased by 40 percent.

Based on these assumptions, skip tracing could enable the clerk to spend approximately the same number of work hours but reduce the volume of returned mail by 18 percent and improve revenue collections by 5 percent. We recommend that the Tax Collector use an Internet-based address-location service to research those returned bills for which there is no postal forwarding sticker. We also recommend that the Tax Collector provide these addresses to the Assessor for the purpose of updating the Assessor's roll.

The Tax Collector's Existing Means to Update Mailing Addresses

If a forwarding address sticker has been placed on the envelope by the Postal Service, the returned-mail clerk forwards a photocopy of the envelope to the Assessor's Office so that the assessment roll may be updated. However, until the practice was changed in late March 2005 as a result of our inquiries, employees responsible for redemption, unsecured, and "complimentary" bill returned mail were not forwarding the postal stickers to the Assessor.

Forwarding of the postal sticker is the only way in which the Tax Collector is presently able to correct an erroneous address in the Assessor's system. The Assessor's office has expressed interest in considering additional methods, and has been communicating with the Tax Collector regarding potential improvements. This report recommends several changes that would improve the accuracy of addresses and enhance tax collections. These recommendations are not intended to preclude additional steps that either the Tax Collector or the Assessor may take to improve the County's communication with taxpayers. The Tax Collector and the Assessor should review and discuss address-change procedures at least annually to ensure efficiency in address-change procedures.

The Assessor and Tax Collector databases are not integrated. When a new address is found by the Tax Collector, a new label is prepared and the bill sent out. However, for subsequent bills, the addresses will continue to come from the Assessor's roll, which may or may not be corrected.

According to the Assistant Assessor, the Santa Clara Assessor's Office is extremely careful not to change addresses unless the change is authorized in writing, or through the postal mail-forwarding program. According to the Assessor's Office, taxpayers in other jurisdictions have experienced negative consequences when assessors have had more lenient address change polices. Problems caused or exacerbated by lax control over address changes include:

- Real estate fraud, in which property is either sold by a non-owner or financing is obtained on the property by a non-owner;
- Disgruntled parties intentionally attempting to misdirect tax bills in an effort to cause delinquency; and,
- Identity theft.

It should be noted that assessee information is also vulnerable to theft when tax bills or other official notifications are mailed to incorrect addresses. It should be noted also that the Assessor will accept address changes through the Postal Service, which requires no documentation to re-route *all* of a person's mail. Although fraudulent misdirection of mail is a federal crime, it could easily be done anonymously through the Postal Service website. In addition, the Assessor will change an address if the request comes from an e-mail account set up in the name of the assessee. A bogus e-mail account is extremely easy to establish. There is little distinction between the level of "documentation" provided by an e-mail from someone claiming to be a certain taxpayer versus a telephone call from someone claiming to be a certain taxpayer.

Although the Assessor considers e-mails and Postal address changes proof of an assessee's new address, if an undeliverable tax bill is re-mailed to a new address by the Tax Collector and payment is returned, the Assessor will not change the address in the

Assessor's system without first receiving a copy of the Assessee's pre-printed check paying those taxes and a copy of the returned bill. The Tax Collector has indicated that compiling paper records in this fashion is not administratively practical.

The Assessor's staff has expressed concern that the County would be exposed to potential litigation if a mailing address were changed without a paper request and that change contributed to the commission of illegal acts. While this concern is understandable, it should be noted that mailing tax bills to incorrect addresses also increases the chance of litigation against the County. As noted in Section 6 of this report, at least 15 percent of taxpayer appeals of late payment penalties are the result of incorrect addresses, and the County has in fact been sued over the disposition of a penalty appeal in the past.

Therefore, it is not clear that the "documentation" standards described by the Assessor would either prevent fraud or relieve the County of liability, but it is clear that incorrect addresses increase the likelihood of litigation against the County and may expose taxpayers to misuse of information.

Different assessors use different standards to determine when to change mailing addresses. Assessors in many large counties have requirements similar to the Santa Clara County Assessor. However, this philosophy is not universal. For instance, in Riverside County, the Assessor's staff has concluded that requiring paper records to change addresses will not prevent maliciousness, so therefore, address changes do not require written authorization. Riverside County serves a larger resident population than Santa Clara and according to the State Controller's Office, the Tax Collector issues 62 percent more secured tax bills than Santa Clara County.

The practical effect of Riverside's not requiring written records or signatures to make address changes is to enable the Assessor to change addresses based on requests by telephone or electronic website forms. The Riverside Assessor's staff reviews the address change requests, and if there is anything suspicious, the Assessor's staff may contact the requesting party and may even refuse to change the address. In Riverside County, the Assessor updates addresses based on mail-forwarding notices and provides the new addresses to the Tax Collector. According to the Riverside County Assessor's Office, individuals have fraudulently changed addresses in Riverside in an effort to acquire properties or for other malicious purposes. However, the Riverside Assessor's office has taken the position that maliciousness is not necessarily *prevented* by signature requirements, and so has opted not to require them.

Planned Improvements

The Assessor's office intends to make system improvements to enhance the accuracy of addresses and to enable on-line address changes. The Tax Collector's office has embarked on an ambitious effort to develop and implement a new computer system intended to incorporate the following improvements with respect to addresses:

- Software intended to validate addresses prior to mailing the first time;

- Side-by-side viewing of the Assessor's and Tax Collector's addresses;
- A change-of-address form on the bill itself; and,
- "Real-time" ownership changes.

In addition, the Tax Collector's staff intends to implement a new change-of-address module in the existing payment processing system that would "read" handwritten forms and generate a file that could be provided to the Assessor. This cost of implementation of this module is estimated at between $40,000 and $50,000. We recommend use of PTAP funds to pay for this upgrade, and we recommend that the Assessor change the Assessment roll based on the electronic addresses generated by this upgrade

While these changes will improve the accuracy of mailing addresses, full implementation is a few years away. Even once implemented, these improvements will not eliminate the need for people to research and resolve address problems.

Effects of Existing Practices

Effects of the Assessor's Cautious Address Change Policies

Whether and to what extent the Assessor's address-change policies protect taxpayers from fraudulent address changes is undetermined. While restrictive policies may deter some malicious address changes, such policies cannot prevent a determined party from altering addresses. Again, if an identity thief re-routed all of a person's mail by completing an on-line Postal Service form, this could trigger the Assessor to change the address. While the Assessor prohibits taxpayers from changing addresses by telephone, and will not accept address change information from the Tax Collector without paper records, address changes are accepted if received from apparently valid e-mail accounts.

Failure to take addresses from the Tax Collector from which the Tax Collector has received payment virtually ensures that, unless the taxpayer independently updates the address with the Assessor's office, future bills will be misdirected. Any misdirected bill – whether maliciously or not – potentially exposes the taxpayer to negative outcomes.

The extent to which the Tax Collector has mailed bills to updated addresses – that then have not been changed in the Assessor's system prior to the mailing of subsequent bills – also is undetermined. However, interviews with Tax Collector staff and reviews of taxpayer correspondence to the Tax Collector suggest that a material number of taxpayers could be affected.

For instance, a Los Altos taxpayer complained in 2004 that he felt "blind-sided" when he was assessed a late penalty on a bill that had gone to the wrong address. "The correct address was in the system last year," he noted, "but this year the tax bill was sent to the wrong address with no intervention from me." Accepting new addresses from the Tax

Collector for which the Tax Collector has accepted payment would be a reasonably safe way of ensuring that bills are not misdirected.

CONCLUSION

Existing practices for updating taxpayer addresses are inefficient. In some cases, County employees working in the same building are maintaining two separate taxpayer addresses and mailing bills and other important correspondence to these addresses without collaborating to determine which is correct. In addition, the Tax Collector is not doing all it can to locate taxpayers, and has limited incentive to improve its research since the Assessor requires paper records to update addresses located by the Tax Collector.

By implementing the recommendations below, the County would increase timely collection of taxes, decrease mailing and research costs, reduce penalty appeals and minimize taxpayer frustration.

RECOMMENDATIONS

The Tax Collector should:

5.1 Print (or stamp) a notice on the back of envelopes used for re-mailing returned bills to inform recipients that they must complete the enclosed change-of-address form or future bills will be misdirected. (Priority 3)

5.2 Provide the returned-mail clerk and others who process returned-mail with a low-cost Internet-based address location service, as discussed in Section 4. (Priority 2).

5.3 Provide a link on the Tax Collector's website to the electronic change-of-address form on the Assessor's website. (Priority 3)

5.4 Batch-process the Assessor's roll through address validation software to correct malformed addresses and provide these corrections to the Assessor. (Priority 2)

During the next re-design of bills, the Tax Collector should:

5.5 Print a change-of-address form on the bill itself and proceed with plans to upgrade the payment processing system to readily enable forwarding of address changes to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)

The Tax Collector should annually:

5.6 Query the Tax Information System to obtain a list of parcel numbers for which the return-mail clerk has generated a new mailing label and for which a payment has been received. Provide this list, along with the last mailing address, to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)

5.7 The list from Recommendation 5.6 above should be compared to the Assessor's annual roll, and the Tax Collector should use the best address available for mailing the annual bill. (Priority 2)

The Board of Supervisors should urge the Assessor to:

5.8 Update the taxpayer's address using information provided from the Tax Collector from implementation of Recommendations 5.2 through 5.6. (Priority 2)

The Board of Supervisors should urge the State Legislature to:

5.9 Modify applicable sections of the Revenue and Taxation Code to explicitly authorize the Tax Collector to mail bills only to addresses the Tax Collector deems most likely to be correct, in keeping with Recommendation 5.7. (Priority 2)

COSTS AND BENEFITS

Implementation of the above recommendations would reduce initial mailing to incorrect addresses by an estimated 30 percent. This would reduce the number of late-payment penalty appeals by a similar percentage. These recommendations would significantly reduce multiple mailings of returned bills and associated costs, and generate interest earnings by increasing the timely collection of taxes. These recommendations would also reduce taxpayer frustration.

It is estimated that the initial net budget impact of implementing all of the recommendations would be a small increase in revenue due to increased interest earnings. Over time, the initial implementation costs would decrease somewhat, while the improved interest revenue and savings on mailing and other costs would be ongoing benefits.

2004/2005

IMPORTANT INFORMATION ABOUT YOUR TAX BILL

Enclosed is your **REGULAR SECURED TAX BILL FOR 2004/2005** which covers the period of July 1, 2004 through June 30, 2005. As required by law, this bill was mailed by the Tax Collector on or before November 1, 2004. Under certain circumstances, and as a courtesy to taxpayers, a duplicate copy of this bill may be remailed during the year. This remailing normally occurs as a result of a written request for a mailing name and/or address change.

The tax amounts shown on this regular tax bill are based on the assessed value of your property in effect as of the January 1 **lien date**. This value was reported to the Tax Collector by the County Assessor.

REGULAR TAX BILL-
DUE AND DELINQUENCY DATES

Installment	Due	Delinquent After
First	November 1, 2004	December 10, 2004
Second	February 1, 2005	April 10, 2005

Unless hand delivered timely, the U.S. postmark is used as the date payment is received by the Tax Collector. It is your responsibility to ensure that your payment is postmarked accurately.

SUPPLEMENTAL TAXES

Generally, when a change in ownership or completion of new construction occurs, the County Assessor is required to reassess property at market value. In many cases, the market value is higher than the assessed value in effect as of the lien date for your regular taxes. If this situation occurs, a supplemental tax bill will be issued.

A SUPPLEMENTAL TAX BILL IS SEPARATE FROM AND IN ADDITION TO A REGULAR TAX BILL.

ADDITIONAL TAX INFORMATION

Please refer to the following pages and to the reverse side of your tax bill. If further information is still required, please call as follows:

OFFICE OF THE TAX COLLECTOR	
Tax payments	(408) 808-7900
Missing tax bills	(408) 808-7900
Tax rates	(408) 808-7900
OFFICE OF THE ASSESSOR	
Value of real estate	(408) 299-5300
Homeowner's & Veteran's Exemption	(408) 299-6460
Value of business personal property	(408) 299-5400

PROPERTY TAX ASSISTANCE STATE FRANCHISE TAX BOARD 1-(800) 852-5711 (toll free)

PROPERTY TAX ASSISTANCE FOR SENIOR CITIZENS OR BLIND OR DISABLED PERSONS. The Gonsalves-Deukmejian-Petris Senior Citizens Property Tax Assistance Law provides direct cash assistance based on part of the property taxes paid on the homes of qualified individuals with total household incomes of $38,505 or less who are either: (1) 62 or older, (2) blind, or (3) disabled; and a U.S. citizen or eligible alien. Claims for assistance are based on the 2004/2005 property taxes. The filing period runs from July 1, 2005 through October 15, 2005. Qualified individuals must file a claim form each year in order to receive assistance. Filing for property tax assistance will not reduce the amount of property taxes owed to the County Tax Collector.

FORMS AND INFORMATION. You can get claim forms or information regarding the Homeowner and Renter Assistance Program from the Franchise Tax Board Website: **www.ftb.ca.gov** or by contacting the Franchise Tax Board at (800) 338-0505 before June 15, 2004, and at (800) 868-4171 on June 15th and after.

PROPERTY TAX POSTPONEMENT STATE CONTROLLER'S OFFICE 1-(800) 952-5661 (toll free)

PROPERTY TAX POSTPONEMENT FOR SENIOR CITIZENS OR BLIND OR DISABLED PERSONS. The Property Tax Postponement Law allows eligible homeowners the option of having the state pay the property taxes on their principal place of residence. To be eligible for postponement, you must (1) be either 62 years of age or older, blind, or disabled; (2) own and occupy your home as of December 31, 2003; (3) have a 2003 household income of $24,000 or less; and (4) possess 20% equity interest in your home. The amount of taxes postponed plus accrued interest must be repaid to the State of California when the homeowner dies, sells, moves from the property or allows senior liens to become delinquent. The filing period for the current year taxes is May 14 through December 10, 2004. A claim must be filed each year the homeowner desires to have the property taxes postponed.

FORMS AND INFORMATION. You can get claim forms or information regarding the Property Tax Postponement Program by contacting the State Controller's Office Website: **www.sco.ca.gov** or by contacting the State Controller's Office at (800) 952-5661. If you are calling from a local 916 area, please call 327-5587.

John V. Guthrie
Santa Clara County Director of Finance
County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1767

WWW.SCCTAX.ORG

MOBILE HOME OWNERS

California law requires a Tax Clearance Certificate to be obtained from the Tax Collector's Office prior to any change in ownership of a mobile home. This clearance must then be filed with the State of California Office of Housing and Community Development (HCD). You may contact HCD at (408) 277-1211 or 1-(800) 952-8356.

THE COMBINED TAX BILL

The County Tax Collector serves as the collection agent for all local governments. The bill you receive is for services provided by the schools, the city (if you reside within a city), the county, and any special district serving your property, such as a sewer district (it may be listed as either a sanitary or sanitation district), fire, water or soil conservation district.

Approximately 61% of the taxes is distributed to schools and community colleges; 12% to the county; 9% to the cities; 6% to the special districts; and 12% to local redevelopment agencies. All tax rates and special charges are listed on the right hand side of the tax bill.

24 HOUR AUTOMATED TELEPHONE TAX INFORMATION

The 24 hour automated telephone tax information system is available at (408) 808-7900.

VIEW AND PAY TAXES ON-LINE WWW.SCCTAX.ORG

You can view your taxes on-line. Most tax bills can also be paid on-line using e-check or a credit card.

Check Cards VISA

5196 REV 6/0

DETACH HERE — DETACH HERE

LAWRENCE E. STONE, Assessor

Santa Clara County Assessor's Office – Exemption Division (408) 299-6460

70 West Hedding Street, East Wing, 4th Floor

San Jose, California 95110-1771

HOMEOWNER'S EXEMPTION TERMINATION NOTICE

I, ______________________ no longer qualify for the Homeowner's Exemption on the property located at:

Assessor's Parcel Number __ __ __ __ __ __ __ __

Property Address ______________ City ______________ Zip ______________

Date moved: ______________ (Month/Day/Year)

Property was sold on ______________ (Month/Day/Year)

Mail Payments to Tax Collector address on payment stub

Other (Please explain) ______________________________

Signature of Owner ______________ Date Signed ______________ Phone No. ( ) ______________

DETACH HERE — DETACH HERE

HOMEOWNER'S EXEMPTION (408) 299-6460

To qualify for the Homeowner's Property Tax Exemption, the assessee must own and occupy the residence on the lien date (January 1st) of the year for which the exemption is claimed.

To qualify for the maximum exemption (up to $7,000 off the assessed value), a claim must have been filed prior to February 15, 2004. **If you believe you qualify and have not received a homeowner's exemption, you have until December 10, 2004 to complete a claim for a late exemption (up to $5,600 off the assessed value).**

Once the homeowner's exemption is granted, it will remain in effect until such time as the homeowner is no longer eligible; i.e., the residence is no longer owned or no longer occupied as the principal place of residence by the homeowner claiming the exemption.

Additionally, recording a deed (i.e. transferring the property into or out of trust, adding or removing co-owner names, or recording a deed to make name changes), will automatically terminate the exemption for the upcoming fiscal year. A new claim will automatically be sent to the new owner of record.

When the homeowner is no longer eligible for the exemption, it is his or her responsibility to notify the Assessor. A "Homeowner's Exemption Termination Notice" has been provided for your convenience (left of this notice).

Please Note: A dwelling does not qualify for the exemption if it is rented, vacant and unoccupied, or the vacation or secondary home of the claimant.

State law provides mandatory penalties and interest if homeowners fail to notify the Assessor of their ineligibility by December 10th of the year in which the exemption was granted.

Further information on the exemption can be obtained by calling the Exemption Division of County Assessor's Office at (408) 299-6460.

Visit our website at: www.scc-assessor.org

Lawrence E. Stone
Santa Clara County Assessor
County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110-1771

DETACH HERE — DETACH HERE

Request for Change of Address

ONLY OWNER/AGENT SIGNED REQUESTS FOR CHANGE OF ADDRESS WILL BE ACCEPTED

LAWRENCE E. STONE, Assessor
SANTA CLARA COUNTY ASSESSOR'S OFFICE
ASSESSMENT SERVICES DIVISION, 5th FLOOR
70 WEST HEDDING STREET, EAST WING
SAN JOSE, CA 95110-1771

If New Owner, Date Acquired ______________

LENDER ADDRESSES ARE NOT ACCEPTABLE

Assessor's Parcel Number __ __ __ __ __ __ __ __ Date ______________

Property Address ______________________________

MAIL FUTURE ASSESSMENT CORRESPONDENCE AND TAX BILLS TO: *(Please print)*

Name ______________________________

Street ______________________________ Apt. No. ______________

City ______________ State ______________ Zip ______________

Mail Payments to Tax Collector

Owner/ Agent's Signature ______________________________

*If Agent, include authorization letter

Section 6. Cancellation of Late Payment Penalties

- **Cancellation of late-payment penalties on property taxes is regulated by State law. In FY 2003-04, the Tax Collector processed 807 appeals of late-payment penalties and costs amounting to an estimated $256,000. Sixty percent, or 488 appeals, were granted, resulting in the waiver of an estimated $154,000 of penalties. The Department's written procedures provide insufficient criteria for deciding appeals, do not specify how case histories and appeal decisions will be documented, and make no provisions for ensuring consistency of outcomes. State law requires that taxpayers receive interest on certain refunds and that reports be prepared regarding cancellation of certain penalties, whether appealed or not. These refunds are not made and the reports are not prepared. In addition, adjudicating appeals consumes approximately 20 percent of the Tax Collector's time.**

- **As a result, appeal adjudication procedures, timeliness and decisions are not demonstrably consistent. Penalty appeal decisions are not always fully documented. In addition, because penalty and tax checks are held by the Tax Collector's Office during the appeal process, interest income is lost and the potential theft or loss of checks is an unnecessary internal control risk.**

- **By expanding written policies and procedures, preparing penalty cancellation reports for certain penalties waived, and depositing all checks upon receipt, the penalty cancellation process can be improved, decisions can be demonstrably consistent, and cancellations conducted in compliance with State law. Upon completion of the Tax Collector's new tax collection management computer system, the delegation of this function to lower level management staff to decide most penalty appeals would allow the Tax Collector to devote more time to higher priority management issues. In addition, the Internal Audit Division should periodically sample appeal decisions to ensure consistency of outcomes.**

Application of Penalties for Late Payment

Taxpayers are required by State law to pay property taxes by specified dates. When taxpayers fail to pay their taxes by the dates due, the law provides for a grace period in which to remit payment. If a taxpayer fails to pay by the end of the grace period, the bill becomes delinquent and monetary penalties are added to the balance due. Initial penalties are 10 percent of the bill.[1]

When a payment has been made after the delinquency date, a penalty is imposed by the Tax Collector's computer system. In Fiscal Year 2003-04, more than 80,000 penalties were imposed on Santa Clara County tax bills. The Tax Collector has processes in place to cancel penalties that are improperly imposed, and to reverse penalties that were properly imposed but that may be waived by appeal due to extenuating circumstances, such as the taxpayer's death. In addition to the 80,000 penalties that were assessed and

[1] Revenue and Taxation Code Section 2617.

not canceled in Fiscal Year 2003-04, other penalties were assessed and subsequently canceled. Although the exact number of canceled penalties is undetermined, it is estimated to be more than 6,000 annually.

The largest portion of these are administrative reversals for payments that were postmarked timely, but received after the due date, and therefore recorded as late even though they were legally paid on time.

Penalty Appeals

State law permits the Tax Collector to cancel late-payment penalties due to special circumstances based on appeals filed by taxpayers. The circumstances under which the Tax Collector may cancel penalties are established by State law, and these requirements are detailed in the following section. Although the circumstances are defined by law, it is up to the Tax Collector to use judgment in determining whether the taxpayer's situation meets the statutory criteria. The Tax Collector has established general internal guidelines for staff communication with the public about penalty appeals, but there is no policy in place and only limited criteria to govern the Tax Collector's process of adjudicating appeals. For instance, although about a third of appeals are granted due to the taxpayer's claim that a bill was not received, the Tax Collector's guidelines lack criteria for the circumstances or evidence under which a waiver will be granted for non-receipt of bills. Most of those non-receipt waivers were granted for supplemental bills, as opposed to annual bills. Given the absence of such criteria, it is unclear that the guidelines meet the requirements of Revenue and Taxation Code Section 2610.5, which specifies that the Tax Collector implement "specific procedures for the consideration of penalty cancellations."

Of the more than 80,000 penalties assessed in Fiscal Year 2003-04, fewer than 1 percent were appealed. Still, the 807 appeals adjudicated in Fiscal Year 2003-04 consumed an estimated 20 percent of the Tax Collector's time, and substantial amounts of administrative staff time. At present, the Tax Collector has no appropriate staff to whom appeals duties could be delegated. However, the department has plans to implement a new computer system that is expected to reduce staffing needs. Some of the saved work hours could be used to free up the Tax Collector's time for more critical management efforts.

The Tax Collector's secretary maintains an electronic log of each appeal filed and assigns a number to each appeal. With assistance from staff, the Tax Collector prepares a hardcopy folder for each appeal. The folders contain at least the appeal letters and associated documentation, and an indication of the outcome of the appeal.

If a taxpayer believes the Tax Collector's decision is incorrect, the taxpayer may pursue a second review by the Tax Collector. If that is unsuccessful, the taxpayer may file a request for a refund, which triggers review by County Counsel. The taxpayer's last recourse is litigation.

In 1999, a taxpayer claimed to have mailed a $356,000 tax payment on the delinquency date and insisted that the postmark date two days afterward was applied erroneously by the Post Office. Since the postmark date was two days past delinquency, the county applied a $35,600 penalty. The taxpayer's appeal was denied. The taxpayer eventually sued, arguing that the denial was arbitrary, capricious, an abuse of discretion and without reasonable basis. The County won the case by summary judgment in November, 2000. Although the County prevailed in this instance, the case illustrates the potential for litigation over appeals, and, therefore, the need to ensure that appeal decisions are consistent and supported by evidence.

According to a log of appeals maintained by the Tax Collector, in FY 2003-04 the department handled 721 secured and 86 unsecured appeals, for a total of 807. Some appeals required multiple decisions because the taxpayer contested penalties on more than one parcel or more than one type of bill. According to the log, 60 percent of penalties were waived and 39 percent were not. Fewer than 1 percent had no decision listed. There were 488 appeals that resulted in penalty cancellations. As shown in the table below, this represents 60 percent of all appeals filed that year.

Table 6.1

FY 2003-04 Penalty Appeals
Stemming from 86,000 Penalties Applied

	Appeals Filed	Estimated Penalty Value	Waivers Granted	Percent of Appeals Approved
Secured Taxes	721	$166,000	434	60%
Unsecured Taxes	86	$90,000	54	63%
Total	**807**	**$256,000**	**488**	**60%**

Legal Provisions for Penalty Cancellations

State law either allows or requires the Tax Collector to cancel penalties under certain circumstances. When penalties are canceled due to errors or processing delays by the Tax Collector, the Controller-Treasurer or the Assessor, Section 4985.1 of the State Revenue and Taxation Code requires that the Tax Collector "make a report to the auditor in the manner prescribed by the auditor of any cancellation made pursuant to this section."

No such report is prepared currently. The Accounting Division of the Tax Collector's office should prepare an annual penalty-cancellation report for the Controller-Treasurer. Ideally, this report should indicate the rationale for cancellations.

Pursuant to Sections 2610.5 and 4985 of the Revenue and Taxation Code, penalties must be canceled if:

- The penalty was applied by mistake.

- The taxpayer can show that the Tax Collector failed to mail or electronically transmit tax bills to the address on the tax roll or to the address authorized by the taxpayer.
- Late, amended or corrected tax bills are paid within 30 days of mailing or electronic transmittal.

In most circumstances, the law permits penalties to be canceled for one of four reasons:

1. Section 4985.2 permits cancellation of penalties when court ordered.
2. Section 4986.8 allows the Tax Collector to cancel penalties if the underlying tax bill is canceled.
3. Section 2610.5 allows the Tax Collector to cancel penalties if the county failed to send a notice of taxes to the owner of property acquired after the lien date, as long as the new owner pays the tax due no later than June 30.
4. Pursuant to Sections 4985.2, 2910.1 and 2610.5, the taxpayer may persuade the Tax Collector to cancel the penalty. However, to cancel the penalty, the Tax Collector must first find that late tax payment was due to at least one of the following:

    a. Reasonable cause and circumstances beyond the taxpayer's control, and occurred notwithstanding the exercise of ordinary care in the absence of willful neglect. Even under this circumstance, the tax amount must be paid within four years of delinquency.

    b. The taxpayer inadvertently paid the wrong amount, but paid the proper amount within ten days of the Tax Collector mailing a notice of shortage.

    c. The taxpayer convinces the Tax Collector that he or she did not receive a tax bill that was mailed to the address provided on the Assessor's roll or to the address provided and authorized by the taxpayer. Otherwise, the law specifies that taxes and penalties are due even when taxpayers don't receive a tax bill.

In summary, then, State law permits the Tax Collector to exercise judgment in determining when or whether to cancel penalties, but requires that the decisions be governed by evidence of extenuating circumstances. It should be noted that, pursuant to a 1996 opinion by County Counsel, there is no legal basis for the Board to review these decisions.

Department Guidelines

Revenue and Taxation Code Section 2610.5 requires that the Tax Collector implement "specific procedures for the consideration of penalty cancellations." Currently, there is no policy governing penalty cancellations. However, the Department does have two documents that provide guidance regarding disposition of penalties. The first is a 3 1/2-page document entitled "Internal Department Guidelines – Waiver of Penalties." These guidelines are geared toward helping line staff answer taxpayer questions about late payment penalties and appeals. For instance, it instructs staff to tell taxpayers to send a letter of appeal and describes required documentation. It defines various typical reasons that taxpayers seek waivers, and indicates which are either generally acceptable or not. For instance, the guidelines say that failure to receive the bill or inability to pay it are generally not considered reasons to cancel penalties, but if the taxpayer dies or sends a payment that is lost in the mail, a waiver may be granted. The guidelines specify that appeals must include a letter of appeal, separate checks for the tax amount and the penalty amount, and copies of documentation sufficient to support the taxpayer's claims.

According to the guidelines, taxpayers will be notified of the outcome of appeals by mail. This document provides reasonable guidance to staff answering general taxpayer questions. However, the guidelines do not clearly link the criteria for determining whether penalty appeals are approved to the applicable provisions of State law. In addition, the specific criteria for determining whether to approve or deny an appeal are not defined. There are no specifics regarding how appeal cases will be researched by staff, no criteria for preparing the appeal files, and little detail regarding the criteria or factors that will be used to decide the outcome. For instance, the guidelines indicate that serious illness of the taxpayer may be considered sufficient to grant a waiver. In practice, however, the Tax Collector denied the appeal of a hospitalized taxpayer in part because the taxpayer's wife was also on the title. The guidelines state that failure to receive a bill is not grounds for a waiver, yet about one third of all taxpayers whose waivers were granted in Fiscal Year 2003-04 had appealed due to failure to receive a bill. Most of these waivers were for supplemental bills, as opposed to annual bills. Again, Revenue and Taxation Code Section 2610.5 requires that the Tax Collector develop "specific procedures for the consideration of penalty cancellations." We recommend that the Tax Collector strengthen procedures to better define the criteria upon which penalty appeal decisions are based.

In addition, the guidelines provide no general policy guidance for penalty cancellations for reasons other than appeal. Polices in other counties may include prohibitions against use of cancellations for the benefit of friends or family, and define which individuals should have system access to cancel penalties, and/or define who has authority to approve cancellations. The Tax Collector should develop a policy governing penalty cancellations and strengthen procedures for the review of appeals. The policy should define as specifically as possible the criteria upon which outcomes will be determined. The policy should also define which positions have authority to approve cancellations, and which positions should have system access to implement cancellations. It also should prohibit use of cancellations to benefit family or friends.

In addition to the guidelines, the Department has a form letter that lists eight possible reasons for denial of a waiver. When an appeal is denied, the letter is usually sent with one or more of the reasons checked. The reasons listed generally mirror the language in State law.

On occasion, particularly if taxpayers provide additional documentation to support their claims, appeals may be reconsidered by the Tax Collector. After the Tax Collector's final decision is rendered, if a taxpayer believes a claim was denied inappropriately, the taxpayer may file a request for refund through the Clerk of the Board. This rarely used option triggers a review of the case by County Counsel. Taxpayers must request a refund before they may sue the County. As previously noted, the County was sued in 1999 over denial of a waiver, but prevailed.

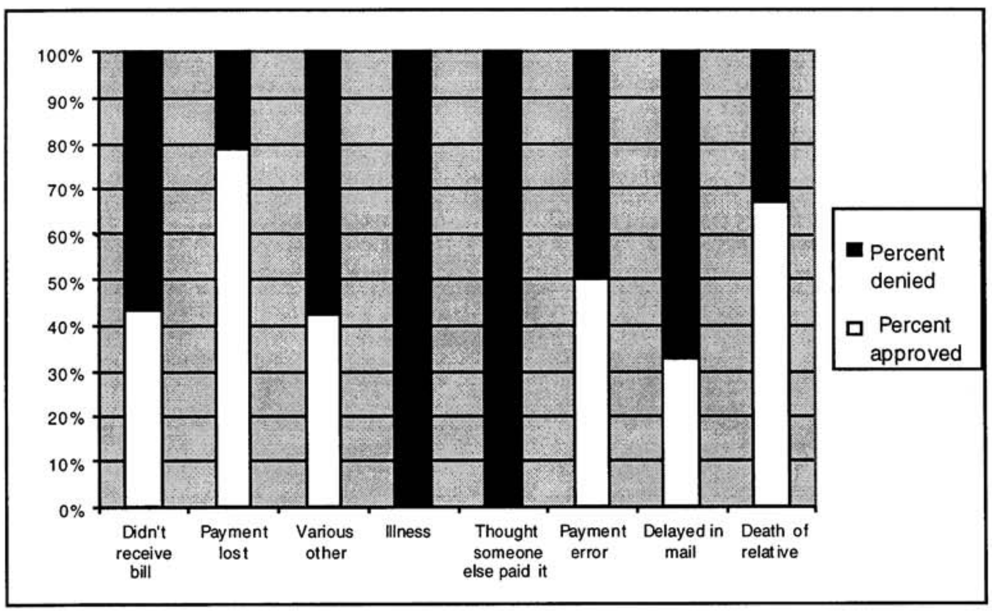
Appeals in Practice

An Exercise in Judgment

State law provides for penalty cancellations in specific circumstances. The law empowers the Tax Collector to determine whether there is sufficient evidence that the taxpayer's claims are true and legitimate impediments to timely payment. This exercise of judgment is illustrated by Chart 6.1 below.

Chart 6.1

Secured Penalty Appeal Outcomes by Reason
For Late Payment in FY 2003-04



The chart reflects the outcomes of 71 taxpayer appeals of late-payment penalties on secured tax bills in FY 2003-04. It reveals the differences in outcomes by the reasons that each taxpayer gave for contesting the penalties. As the chart shows, the reasons for the request are generally less important than whether the Tax Collector either believes the taxpayer's documentation or gives the taxpayer the benefit of the doubt. In other words, outcomes have less to do with the underlying reason for the late payment than with the Tax Collector's judgment about the veracity and legitimacy of the claim. Because the Tax Collector essentially acts as a judge in applying the penalty cancellation statutes, it is critical that the criteria upon which the decisions are based are well defined, as required by Revenue and Taxation Code 2610.5.

Lack of Consistency and Standardization

Since outcomes are driven less by the underlying reasons for the claims than by the Tax Collector's beliefs about the veracity and legitimacy of the claims, it is essential that the Tax Collector document the basis for determining the veracity and legitimacy of claims. However, auditors examined random samples of penalty appeals from FY 2003-04 and determined that penalty waivers are frequently granted without specific indication of the basis for the decision within the file.

The level of documentation regarding the facts of the case and the basis for the decision was inconsistent from case to case and by appeal type. In general, the basic facts of the case for unsecured appeals were much better documented than secured appeals. One secured taxpayer's appeal was initially denied even though the taxpayer paid timely in the first place and never should have been penalized. Although the decision was later reversed, this case suggests that the review process is not sufficiently standardized to prevent undue variability in outcomes. In many files for secured penalties, even basic information, such as the amount of the tax due, was missing, while other files contained extensive records from both the Tax Collector and the taxpayer.

The Tax Collector should systematically document the facts of the case using standardized sources of information. Pertinent electronic information should either be reproduced or noted in the appeal file. Ideally, a brief case history – similar to the one-paragraph case histories contained in unsecured penalty appeal files – should be prepared for all appeal decisions.

Management Audit Division staff sampled 71 secured tax appeal files, and 17 unsecured tax appeal files, for a total of 88 files reviewed. Of the 71 secured appeals reviewed, 55 percent were waived on appeal and 45 percent were denied. Nine waivers – or 23 percent of all waivers granted – were approved without appropriate documentation within the hardcopy file. These waivers were granted despite denials in circumstances that, based on the paper records, appeared similar. However, upon further discussion with the Tax Collector, it was determined that the Tax Collector generally used as the basis for decisions additional information that was not reflected in the paper files. For instance, there were several cases in which the taxpayer's claims were substantiated at least in part by electronic records in the Tax Information System (TIS). The basis for appeal decisions should be fully documented within the appeal file. Electronic records that are pivotal to the appeal outcome either should be duplicated or referenced within the files.

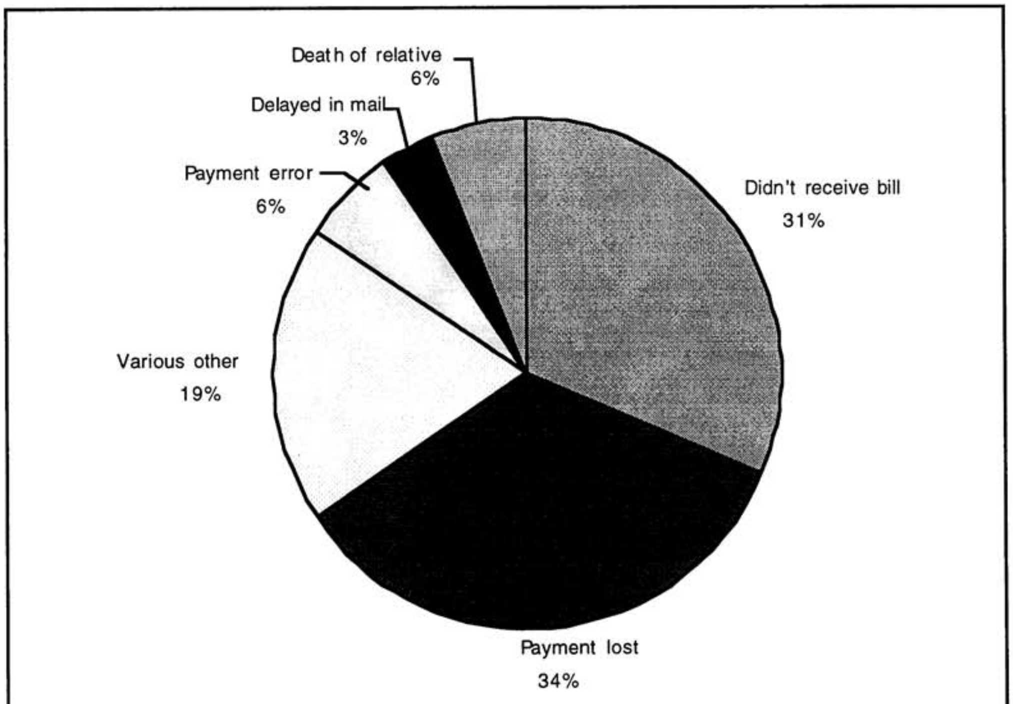
In a few cases, the Tax Collector lacked adequate documentation to waive the penalties under the existing guidelines, but gave taxpayers the benefit of the doubt. For instance, one penalty was waived because the taxpayer e-mailed the Tax Collector on the delinquency date about the status of his payment. The appeal was approved, the Tax Collector said, because it was not possible to respond to all e-mails on that date. Such approvals, although well meaning, create inconsistency in the treatment of taxpayers.

The Tax Collector should systematically document all penalty appeal decisions. Such documentation should clearly indicate what specific information and records were used as the basis for the decisions rendered. When penalty appeals are approved, the record should show which statute provides the legal authority to cancel the penalty. Documentation should be such that reasonable people would likely reach the same decision based on the record.

In addition, there is inconsistency in the guidelines and practice. Both the guidelines and the denial form letter indicate that failure to receive a tax bill is not grounds for a penalty waiver. However, State law specifies that a waiver for non-receipt of the bill is required if the taxpayer can show that the bill was mailed to an address other than that on the roll or that authorized by the taxpayer. In addition, if the taxpayer can demonstrate that the bill was mailed to the address of record but was not received by the taxpayer, the law permits the Tax Collector to waive the penalty. In practice, a large number of penalty appeals are granted on account of the taxpayer's claim of failure to receive the bill. Nearly a third of secured penalty waivers sampled were granted on account of failure to receive the bill, as shown in Chart 6.2. It should be noted that the majority of these waivers pertained to supplemental bills.

Chart 6.2

Secured Penalty Waivers by Reason for Late Payment



There is inconsistency in the length of time taxpayers must wait for an appeal decision. In Fiscal Year 2003-04, there was substantial variation in the length of time it took to process an appeal. Timelines ranged from one day to 22 weeks. It should be noted that variation was much less in the prior year, and that variation in Fiscal Year 2003-04 was related to the terminal illness of the prior Tax Collector. Based on the appeal logs, in FY 2003-04, it took 71 days on average to process a secured tax appeal and 18 days to process an unsecured appeal. According to the FY 2002-03 logs, processing time averaged 13 and 15 days for secured and unsecured appeals, respectively. Although the terminal illness of the prior Tax Collector in FY 2003-04 was an unusual circumstance that caused unusual delays, the fact that there is no procedure governing the length of review means that review times could be affected by other circumstances, such as retirements, or other significant changes.

There is also inconsistency in the manner of communication between taxpayers and the Tax Collector. Some taxpayers file appeal claims forms requiring them to swear to the facts "on penalty of perjury," while others submit claims via sticky notes or emails. Some receive written letters with a checkbox next to the reasons for denial, while others are notified of their outcomes by telephone.

Following development of a policy and improved procedures, the Finance Director should direct the Internal Audit Division to periodically review appeal cases to ensure compliance with the procedures and consistency of outcomes.

Lastly, pursuant to Revenue and Taxation Code Section 5151, penalty refunds with interest amounts of $10 or more should be refunded with interest. Although it would be a relatively infrequent occurrence for a penalty check to accrue $10 in interest, the Tax Collector should provide procedures to ensure that interest is paid when applicable.

Handling of Tax and Penalty Payment Checks during Appeal

In a few cases, tax amounts have been paid prior to the filing of an appeal. Taxpayers who have not paid the tax amount are asked to send separate checks – one for the tax amount and one for the penalty amount.

In these instances, the two checks are held by the Tax Collector until the appeal decision has been made. If the penalty is waived, the penalty check is mailed back to the taxpayer and the tax check is deposited. If the waiver is denied, both checks are deposited.

Each day that checks are not deposited, the County loses interest income and checks are subject to loss, theft or stop payment orders. On February 24, 2005, management auditors examined all penalty and tax checks for appeals awaiting disposition by the Tax Collector. On that day, there were 129 checks worth almost $280,000 that had not been deposited due to pending appeals. The checks had been in the department for an average of approximately 14 days. Even assuming that the Tax Collector would eventually refund half of the checks, at an estimated cost of $3 per refund, depositing the checks for 14 days would have been more cost effective than not, and also would have reduced the risk of loss or theft. It should be noted that this analysis assumes that the majority of refunded penalties would not have to be refunded with accrued interest. Revenue and Taxation Code 5151 (a) requires that refunds to taxpayers include accrued interest if that interest amounts to $10 or more. Since this amount of interest would be triggered only on large penalty amounts held for short periods or on small amounts held for very long periods, it does not appear that many penalty checks would trigger the interest refund requirement. Nonetheless, it should be noted that the Tax Collector currently has no procedures in place to refund interest on penalty amounts. Such procedures should be developed to ensure compliance with State law.

Based on the Tax Collector's logs, Management Audit Division staff estimated a small amount of annual interest revenue lost due to failure to promptly deposit tax and penalty checks in FY 2003-04.

Most of this amount is interest lost due to delays in depositing tax amount checks. Since virtually all tax amount checks will be deposited eventually whether a penalty waiver is granted or not, there is no basis for holding them. Regardless of interest earnings lost, failure to deposit tax and penalty checks increases the chances of loss, theft, or returns due to insufficient funds, closed accounts, or stopped payments. All checks should be deposited promptly.

The Tax Collector plans to implement a new computer system within a few years that will automatically generate penalty appeal decision letters. However, the practice of holding checks during appeals is slated to continue even after the new system is in place.

CONCLUSION

The lack of standardization and consistency in documentation of the facts of appeals and the basis for decisions, as well as inconsistency in applying guidelines, communicating with taxpayers and timelines for processing appeals, raise issues of taxpayer fairness. In addition, the lack of clear guidelines and policies impinge on the Tax Collector's ability to make decisions that are demonstrably consistent with each other and with the cancellation criteria in State law. All of these factors increase exposure to litigation from taxpayers over whether decisions are consistent, rather than arbitrary, and fair. The policy of holding checks on file during appeal is contrary to best practices in cash handling, costs the county interest revenue, and increases the risk that checks will be lost or stolen, or that taxpayers will stop payment. In addition, the department has no procedures for refunding penalty amounts with interest when that interest amounts to $10 or more, and no history of having refunded penalty amounts with interest. Per State law, refunds must include such interest. Researching and adjudicating appeals is very time consuming for the Tax Collector. Much of this effort could be delegated to a lower-level manager, with final approvals made by the Tax Collector, when the Department's implementation of a new tax collection system frees up work hours. Lastly, the Department is not in compliance with the provision of State law that requires preparation of a report when penalties are canceled due to errors or processing delays by the Tax Collector, the Controller-Treasurer or the Assessor.

RECOMMENDATIONS

The Tax Collector should:

6.1 Prepare penalty cancellation reports in compliance with Section 4985.1 of the Revenue and Taxation Code. (Priority 1)

6.2 Fully document all penalty appeal decisions, and delegate the decision making process to lower level staff when possible, with final decisions made by the Tax Collector. (Priority 2)

6.3 Systematically document the facts of the case using standardized sources of information, including a brief case history. (Priority 2)

6.4 Develop a policy governing penalty cancellations and strengthen procedures for the review of appeals. The procedures should define as specifically as possible the criteria upon which outcomes will be determined, in compliance with Section 2610.5 of the Revenue and Taxation Code. (Priority 1)

6.5 Promptly deposit penalty and tax checks consistent with recommendations in Section 1 of this report, and make interest payments as required by Section 5151 of the Revenue and Taxation Code. (Priority 1)

6.6 Ensure that refunds of penalties include refunds of interest earnings when the interest amount is $10 or more in compliance with Section 5151(a) of the Revenue and Taxation Code. (Priority 1)

The Finance Director should:

6.7 Direct the Internal Audit Division to biennially review a sample of penalty appeal cases to ensure consistency of procedures, documentation and decisions. (Priority 3)

COSTS AND BENEFITS

Although the Department would have to devote resources to implementation of the recommendations, most costs could be absorbed within the existing budget.

The cost to implement Recommendation 6.1 would depend on the volume of cancellations affected, the number of staff involved in processing the cancellations, the type of reports prepared and whether the reports could be automated. The department would experience two key benefits from development of such reports. First, the department would be in compliance with State law. Second, such reports could enable management to more fully understand the causes of erroneous penalties. This information could be used to make changes to reduce the number of erroneous penalties, and therefore reduce the cost of processing cancellations.

Implementation of Recommendations 6.2 and 6.3 would nominally increase the time and thus costs to prepare each appeal file. However, having records and decisions systematically documented would also save time in those instances when cases are reconsidered by the Tax Collector or when administrative staff pull case files to answer appellants' questions. In addition, documenting consistency in procedures and appeal decisions would help to insulate the County against potential litigants' claims that decisions are arbitrary or capricious. Having a lower-level manager responsible for making most penalty appeal judgments would free up a substantial portion of the Tax Collector's time.

Developing a cancellation policy per Recommendation 6.4 would require management to devote time to its development. However, implementation of policies and procedures is an essential function of management and should be absorbed within existing management duties. In addition, other counties have well-established policies that can be adapted easily.

Depositing checks promptly per Recommendation 6.5 would result in both increased revenues and increased costs. The increased revenues would be generated from interest earnings on deposits. Processing refunds and refunding interest earned when $10 or more, would increase costs. Usually, however, it will be more cost effective to deposit all checks promptly and incur refund costs as necessary than to forego both interest earnings and refund costs. In addition, depositing checks will reduce the risk of loss or theft. Refunding interest earned when $10 or more per Recommendation 6.6 would ensure County compliance with State law.

Implementation of Recommendation 6.7 to biennially review a sample of penalty appeals would increase the level of service required of the Controller-Treasurer's staff. It would require one to two days of a staff person's time every other year. The value of this staff time is estimated to be less than $700. The benefit of this review would be to ensure that procedures are consistently applied and that outcomes are demonstrably consistent. Such consistency would ensure that taxpayers are treated fairly and reduce the risk of litigation.

Section 7. Credit Card and E-Check Fees

- **The Tax Collector accepts cash, checks, money orders and electronic transfers from commercial institutions without charge for payment of property taxes. Payments made by credit card or electronic check are subject to fees pursuant to contracts entered into by the Tax Collector and a private vendor. Although State law requires such contracts to be approved by the Board of Supervisors, this contract, which results in annual transaction fees of more than $400,000, has not received legislative scrutiny. Taxpayers using credit cards are charged 2.5 percent of the transaction amount, and e-checks are assessed a fee of $15 or $27 depending on the amount of the tax bill. Taxpayers have not been adequately represented in the execution of the transaction services contract for credit card and e-check property tax payments.**

- **Due to the high fees charged for electronic credit card and e-check property tax payments over the Internet, taxpayers are discouraged from utilizing these alternative and potentially more efficient methods of payment. Based on surveys, some counties charge lower fees for credit card transactions and no fees for e-check payments. In addition, the Tax Collector's e-check fee is substantially greater than the charge to the Tax Collector under the e-check contract. Departments act independently and without policy direction in the acceptance of credit card and alternative methods of payment.**

- **Tax Collector e-check and credit card payment service contracts should be reviewed and approved by the Board of Supervisors to comply with State law. The Board of Supervisors should enact credit card and electronic payment policies to ensure an appropriate balance between taxpayer convenience and County efficiency in the collection of property taxes and the collection of other County fees and charges.**

Methods of Payment and Related Fees to Taxpayers

The Tax Collector accepts property tax payments in multiple forms, including cash, checks mailed or delivered in person to the Tax Collector's Office, or electronic payments, such as electronic checks, wire transfers or credit card payments. As the government agency responsible for the collection of property taxes and the distribution of these resources to schools, cities and special districts, the County of Santa Clara must balance the efficient collection of property taxes with the provision of excellent customer service and convenience to its customers, the taxpayers. The emergence of credit card and electronic payment options requires new policies to be drafted and enacted by the Board of Supervisors. In order to make these decisions, the Board of Supervisors must be informed of the relative costs and benefits from both an economic and service standpoint of each payment option. Ultimately, decisions must be made regarding the appropriate fees, if any, to charge taxpayers paying under each method.

Table 7.1 provides basic information related to the possible methods of payment, their availability in Santa Clara County, and their availability as planned when the new Tax

Collection and Apportionment System (TCAS) is implemented. Under California State law, counties are not able to recover administrative costs incurred in the collection and apportionment of taxes for school districts. Therefore, Santa Clara County recovers only 27 percent of tax collection-related administrative costs. This is an important point in the determination of transaction fees, as discussed later in this section of the report.

Table 7.1

Property Tax Payment Methods

Payment Method	Availability in SCC (CURRENT)	Availability in SCC (TCAS)	Transaction Fee Charged to Taxpayer
Check by Mail	Available	Available	zero
Check at Counter	Available	Available	zero
Credit Card Check	Available	Available	zero (possible cash advance fee)
Credit Card via Internet at TCO	Available	Available	2.5 % of bill
Credit Card via Internet off site	Available	Available	2.5 % of bill
E-Check (ACH)	Available	Available	$15.00 or $27.00
Cash at Counter	Available	Available	zero
CORTAC (subset of check total)	Available to Tax Service Agencies (TSA)	Available to Tax Service Agencies (TSA)	zero
Wire Transfer (EFT)	limited availability	May be required for amounts greater than $50,000 per State Controller option.	zero
ATM/Debit Card at Counter	Pending VISA Board	Pending VISA Board	$15.00 or $27.00
Credit Card at Counter	Pending VISA Board	Pending VISA Board	2.5 % of bill
ATM/Debit Card off site	Not Available (no rules for pinless ATM transactions yet)	Not Available (no rules for pinless ATM transactions yet)	na
Check 21	Not Available	To Be Considered	na
Credit Card by Phone	Not Available	Not Available	na
Home Banking (ACH)	Not Available	Not Available	na

A taxpayer who pays his or her property taxes with a credit card incurs an additional transaction fee of 2.5 percent of the total tax bill. Given an annual tax bill of $6,000, this fee would equal an additional, non tax-deductible cost of $150. During Fiscal Year 2003-04, transaction fees charged to Santa Clara County taxpayers equaled $409,219. The Tax Collector's website describes an e-check as "An electronic check that can be used to pay property taxes. An e-check is issued by entering accounting information from your check into a secured web page." The same person paying with an electronic check would incur a fee of $15 in Santa Clara, and no fee in several other California counties, as discussed later in this finding.

The current primary method of payment is a check mailed or delivered to the Tax Collector. Such payments constituted approximately 99 percent of all payments made in FY 2003-04. The Tax Collector has made incremental improvements in the processing of such payments, including a machine (OPEX) that opens envelopes and prepares them for processing through another machine (BancTec) that scans each check, creating a two sided electronic image, as well as a list of checks ready for deposit. In addition, TCAS is expected to significantly improve the efficiency by which the Tax Collector processes checks and to expedite the related research and customer interaction that results from such payments.

The percentage of payments in FY 2003-04 made with a credit card or e-check represent approximately $19 million in property taxes and over 8,400 transactions. FY 2004-05 credit card transactions of this type have increased somewhat despite the high transaction fees, and are projected to reach 13,000 by year-end. The volume of electronic payments has been determined to be sensitive to the transaction fee imposed. A survey in 2004 by a credit card research firm indicated that while 63 percent of Americans were aware that the Internal Revenue Service (IRS) accepts credit cards, only 1 percent planned to use a credit card to pay their taxes this way because of the transaction fee. The study also indicates that 34 percent of taxpayers would use the credit card option if it were free. An additional survey indicates that even a one-percent transaction fee would be low enough for many taxpayers to elect for the electronic credit card payment option.[1]

Given the sensitivity of volume to transaction costs, it is important that the Board of Supervisors be provided with the information necessary to set these fees at amounts that reflect the policy of the Board. There are two primary options available to the Board of Supervisors in the setting of these fees. The Board can enact fees to recover the actual costs to provide the payment option. Or, the Board can set policies to not charge transaction fees or set the fees at a low rate that intentionally does not recover the transaction costs from the taxpayer. Such an approach would promote the use of electronic and credit card payments, passing on the transaction costs to tax receiving entities to the extent possible. The second option may result in eventual administrative and fixed cost savings, as well as additional interest earnings, ultimately reducing the overall costs required to collect and apportion taxes.

The inventory of all possible payment methods, precise counts of the transactions, amount of taxes collected from each method and the processing costs of each method represent the data by which pricing decisions for transaction fees should be made. While credit card transaction counts and amounts collected are readily available, it was necessary to work with Tax Collector staff to arrive at many of the estimates in Table 7.1, as the information was not readily available. The Finance Agency should begin to

[1] http://www.cardweb.com/cardtrak/pastissues/april2004.html.

compile information and provide a report to the Finance and Government Operations Committee on the annual volume of each payment method and the related known costs. While the current system may make such data gathering difficult, including the reporting capability in the planned TCAS system should be possible.

Legal Basis for Credit Card Payment of Government Fees and Charges

Credit cards have become more and more widespread as a means of paying for goods and services, and the Internet has become a regular tool in the transaction of business in the United States. Consequently, payment of fees, charges and taxes to government entities via credit card and other electronic means via the Internet have begun to be made available. As taxpayers consider which method of payment best suits their needs, they must consider the additional charges and potential interest they will incur and weigh these charges against the convenience of the electronic and credit card payment and other benefits such as earned credits and avoidance of delinquency.

The California Civil Code establishes the rules by which merchants may accept credit cards for payment, operationalizing the federal Truth in Lending Act. The pertinent section related to the Tax Collector and other government agencies accepting credit card payments is Section 1748.1. This section declares that retailers may not impose additional charges on those who elect to use a credit card, although retailers are allowed to offer discounts to customers in order to promote payment by means other than credit cards. In the definition of "retailer", the code section specifically precludes "the state, a county, city, city and county, or any other public agency." California legislation (Senate Bill 1801, Bowen) proposed in 2004 would have extended the prohibition of retailers adding a credit card transaction surcharge to all state agencies. The legislation originally included all local governments as well, but this aspect of the legislation was deleted. The legislation was returned to the Secretary of the Senate and not approved by the State Legislature. The County's current legislative policies support the continued authority of the County to pass transaction costs on to taxpayers.

In regard to taxes and credit cards, the Taxpayer Relief Act of 1997 established credit card payment as an option for persons paying federal taxes, and the legislation included a provision that the federal government could not incur the surcharge costs related to this convenience for taxpayers. California Revenue and Taxation Code Section 2511.1 permits the Board of Supervisors of any county to authorize the acceptance of credit cards for the payment of property taxes and details the components of the contract between the county and credit card entities. A county's acceptance of credit cards and recovery of related costs is permissive, rather than mandated, under State law.

In conclusion, government entities wanting to provide credit card and electronic payment options seek to recover the merchant fees charged by credit card companies and banks when credit card transactions take place. A solution that has emerged to avoid these costs is the use of a third party to process these electronic payments. The third party charges the taxpayer the merchant fee plus an additional clearinghouse fee, thereby relieving the government entity from reducing the amount of taxes it collects from individuals.

Contract with Fiscal Intermediary

On behalf of the credit card industry, the VISA Board of Directors appears to have taken the lead in the provision of permission for credit cards to be used to pay federal and local government taxes. The VISA Pilot program allows for these transactions, and includes rules regarding how they are to be presented and processed, including a provision authorizing the use of a payment clearinghouse such as the one that handles payments for Santa Clara County.

Current Credit Card Contract

The Tax Collector of Santa Clara has entered into an agreement with Official Payments Corporation (OPC) for the collection and processing of credit card payments, to include a convenience fee that is charged to taxpayers equal to 2.5 percent of the tax bill amount. OPC, a subsidiary of Tier Technologies, reported revenues of approximately $37.0 million in the fiscal year ending September 30, 2003. The Tax Collector has also executed an Electronic Check Payment Processing Agreement with OPC to provide for the acceptance and processing of electronic check property tax payments.

On February 4, 2004 the Board of Supervisors authorized the acceptance of credit cards for payment of property taxes pursuant to Revenue and Taxation Code Section 2511.1. The Finance Agency sought approval to use Trust Fund resources to develop a bill presentment and billing system on the Internet to begin to accept credit card payments. The transmittal from the Finance Agency did not indicate that taxpayers would be charged the 2.5 percent transaction or convenience fee. Also, the transmittal did not seek Board approval of the agreement between the County and the fiscal intermediary that processes credit card and e-check payments on behalf of the Tax Collector. It does not appear that County Counsel reviewed the agreement prior to signature, and the credit card processing documentation provided to the Management Audit Division did not include a county signature. The Electronic Check Agreement includes the single signature of a manager in the Tax Collector's Office and does not include a signature by County Counsel. The legislation previously described states the contract must be approved by the Board of Supervisors:

> The board of supervisors may authorize the acceptance of a credit card payment for payment on property taxes. Following an authorization pursuant to the preceding sentence, the county shall, upon approval of the Board of Supervisors, execute a contract with one or more credit card issuers or draft purchasers.

Furthermore, the County's Policies on Contracting and Bidding includes the following statement:

> It is the intent of the Board of Supervisors that these policies will promote the most cost-effective use of taxpayer dollars while contributing to fairness and equal access to business opportunities in the County.

The execution of the agreements by the Tax Collector without sole source justification or a competitive process, and without Board approval, does not meet the intent of the policies to negotiate the best value on behalf of taxpayers. The State law regarding credit card payments indicates the contract should be Board approved. The contract meets many of the tests that would cause it to require sole source justification and Board of Supervisors approval.[2] Specifically, the contract allows the intermediary to charge a fee to taxpayers. The total FY 2003-04 revenue attached to this fee is four times the $100,000 limit above which contracts are to be approved by the Board of Supervisors. Also, the County promotes the company and its services on the Tax Collector's bill presentment and collection website. The estimated transaction fee revenue earned by the vendor in FY 2003-04 equals $400,000. While the County does not incur the costs charged by the intermediary by executing the contract, the Tax Collector facilitated the charging of fees to taxpayers paying property taxes by credit card or e-check. There is also a question of whether the credit card transaction fee should have been approved by the Board of Supervisors as all other fees are approved, even though it is not the County that is charging the fee to the taxpayer. In 2003, the Tax Collector presented fee adjustments to the Board of Supervisors, but these transmittals did not address credit card or other e-payment transaction fees. Therefore, the Tax Collector should forward the current contract for the acceptance of credit card and e-check payments to County Counsel for review, and to the Board of Supervisors for approval.

In the future, the County should consider alternatives that would reduce the transaction fee taxpayers incur. Limiting the allowed credit card to a single card widely held by taxpayers and negotiating a contract with a single entity would reduce the transaction fee percentage. Leveraging the collective electronic payment volume of the County, or leveraging the collective volume of other tax collectors and the State of California would provide for increased negotiation strength in seeking reduced transaction fee on behalf of taxpayers. If 25 percent of all secured property taxes were paid through credit card or electronic means in California, the tax payments would equal $8,283,615,883, and the transaction fees at a rate of only 1.5 percent would equal $124,254,238. Given the potential revenue for a vendor, the tax collectors as a group possess significant negotiation power.

Transaction Fees

The Management Audit Division has made recommendations in this report and previous management audits that departments should provide the Board of Supervisors with complete fee information. This should include the legal basis to charge a fee, the actual fee that would need to be charged to recover the cost of the service or transaction, and the basis for an alternative recommended fee amount. In the case of credit card and other payment methods, the same principles exist. In terms of credit and electronic payment of property taxes, the Board of Supervisors may wish to increase the volume of certain payment types by reducing the transaction fee to the taxpayer. Therefore, the Board must be provided with information to "price" the fee at an amount that promotes intended use of the payment method without causing the county to incur undue expenses. The identification of lower fees in other jurisdictions is a basis by which to conclude: a) the County may be able to negotiate a lower transaction fee on behalf of taxpayers, and b) the County may be unintentionally discouraging taxpayers from

[2] County Ordinance Section A34-80, "Contracts for Services Generally."

using these alternative methods of payment by setting transaction fees higher than necessary or reasonable.

Credit Cards

The clearinghouse that processes credit card and e-check payments in Santa Clara County provides similar services to other counties in California, the federal government and to over 1,000 jurisdictions across the United States. In most counties in California and the United States, persons who wish to pay their property taxes with a credit card incur an additional, non tax-deductible fee equal to 2.5 percent of the tax bill amount. Management Audit Division staff identified six jurisdictions with lower fees on credit card payments than the 2.5 percent charged in Santa Clara County, as shown in Table 7.2.

Table 7.2

Internet Credit Card Property Tax
<u>Transaction Fees Lower than Santa Clara</u>
<u>in Seven Jurisdictions</u>

Jurisdiction	Credit Card Transaction Fee
Santa Clara County, CA and most other jurisidictions	2.50 percent
Harris County, Texas	2.1 percent
Kern County, CA	2.0 percent
Manatee County, Florida	2.0 percent
San Francisco City/County, CA	1.9 percent
San Diego County, CA	1.88 percent
Ventura County, CA	Flat fees of $49.50 and $40 for Visa And Discover

Staff of the Tax Collector and the clearinghouse vendor provided additional information regarding why the fees in San Diego and San Francisco were lower, including the contracts having been negotiated earlier. The lower rates in the table above may include single credit card contracts or cause additional administrative costs for the government entity. The existence of these lower fees and a previous reduction by the Santa Clara vendor clearly show the potential to lower fees for taxpayers exists in Santa Clara County.

Management Audit Division staff requested the Tax Collector to provide an estimate of the costs related to processing a check mailed to the county. This estimate equals $0.51, based on the approximate number of checks mailed in, the staff who process payments and the BancTec costs under an assumed depreciation schedule. Alternatively, the cost to process an average tax payment of $3,000 would equal approximately $52.50, given an assumed merchant fee of 1.75 percent. This transaction fee assumes that the County will more formally procure the clearinghouse services and successfully negotiate a lower rate than is in place currently. A 1 percent reduction in the transaction fee would result in average annual savings of $60 (two tax payments of $3,000) for each taxpayer choosing to pay with a credit card, and would presumably significantly increasing the volume of credit card payments. Based on the estimated transaction fees paid by taxpayers in FY 2003-04, the reduction of the transaction fee from the current 2.5 percent to 1.88 percent represents approximately $100,000 in reduced taxpayer fees.

The County could pass on a portion of the merchant fee to appropriate tax receiving entities by including this cost in the overall administrative costs passed on these entities under California law. Because schools are exempt from the charge, and because the county does not charge itself for incurred costs, 27 percent of the administrative costs are actually recovered each year. Therefore, the $52.50 per payment based on the $3,000 bill would result in a net county cost of $38, still significantly greater than the mail processing cost of $0.51 provided by the Tax Collector.

The speed by which credit card payments would occur relative to a check that is mailed into the Tax Collector's Office is difficult to determine. Tax Collector staff report that credit card payments require a two day "float" before the funds are deposited. As discussed in Section 1 of this report, while the majority of property tax payments are deposited quickly, many others linger in the Tax Collector's Office. Assuming that paper check deposits take place more timely than credit card payments, the credit card payment system as it currently exists results in the delayed deposit of property tax payments. In addition, because the BancTec and OPEX machines have significantly reduced the need for extra help during peak seasons, additional savings related to increased credit card transaction volume would not be realized unless the volume rose to a level where current positions could be eliminated.

Based on a broad consideration of the variables involved, we conclude that while the County should seek to reduce the transaction fee percentage charged to taxpayers who pay with a credit card, the immediate potential savings are not sufficient to recommend the County incur the transaction fee amount itself. However, it may be possible for the County to devise a method whereby the County incurs a portion of the transaction fee in order to promote this method of payment, passing on the incurred cost proportionately to appropriate tax receiving entities. If this strategy resulted in a fixed fee amount, the additional fee would be clearer to taxpayers and the sensitivity of transaction volume to the fee amount could be tested.

Increased credit card payment of property taxes during the next several years as the TCAS system is developed and implemented may complement the Finance Agency's efforts to maximize automation in the tax collection and apportionment process, resulting in reduced administrative costs and the potential to eliminate positions, reducing the General Fund cost to collect taxes. Determining such potential savings will require continued analysis as to the sensitivity of transaction volume to the pricing of the transaction fee.

Electronic Checks (E-Checks)

As previously stated, the Tax Collector's website describes an e-check as "An electronic check that can be used to pay property taxes. An e-check is issued by entering accounting information from your check into a secured web page." Management Audit Division staff did not identify any other jurisdictions in California or elsewhere that had e-check transaction fees as high as those charged to Santa Clara County taxpayers ($15 for an e-check less than $10,000; $27 for an e-check equal or greater than $10,000). In fact, at least three California counties do not charge any fee for e-checks, and two others charge $3 or less for e-check transactions.

The FY 2004-05 Recommended Budget included an increase in the e-check fee from $3 to $15, with $12 of the $15 going to the Tax Collector as a "new revenue source." The volume of e-check transactions was not sufficient to meet the projected revenue with the increased fee. Management Audit Division staff requested the cost basis for the increased e-check fee from the Tax Collector for review in this section and Section 3 of the report, but this documentation was not provided.

The e-check is an attractive payment method for both the taxpayer and the County. The County receives the money under the same two-day float as a credit card, but the transaction fee charged by the intermediary is only $3 for amounts up to $9,999 and $12 for amounts greater than $10,000. The Tax Collector reports that the estimated cost to process an e-check payment under $10,000 is $5.48, comprised of the $3 fee to the intermediary plus the amortized cost of the bill presentment and bill payment system. There are also additional staff costs related to the processing of e-checks, although these costs should presumably be less than the costs related to paper checks. Therefore, the county could reasonably incur the transaction costs, pass them on to tax receiving entities, as allowed, and incur $4 in transaction and processing costs per electronic check. Taxpayers are provided with the convenience of paying from home, and the County is able to promote the use of actual financial resources by taxpayers to pay their property taxes, rather than borrowed funds with attached compound interest. This is especially true because equity line checks and credit card checks are not accepted under the County's e-check option. The County appears to be charging significantly higher fees on e-check payments than other jurisdictions. Even with the high fee, the Tax Collector reports that the volume of e-check transactions has increased during FY 2004-05.

We recommend that the Tax Collector reduce the e-check transaction fee to no more than the OPC charge plus any known, documented costs specifically related to these types of transactions. Fees should not exceed the cost to provide a service. In the case of e-check payments, these costs include the per-transaction fee charged by the fiscal intermediary and any documented internal costs of the Tax Collector. The overall cost accounting and setting of fees is discussed in Section 3 of this report.

Other Payment Methods

The Tax Collector reported that the acceptance of credit card payments at the counter via Point of Sale (POS) machines was being implemented, and that the TCAS project development includes other potential changes in the manner in which various payment methods are accepted and treated. For instance, the Tax Collector may exercise its authority under the Revenue and Taxation Code to require all payments greater than $50,000 be made using an Electronic Funds Transfer (EFT). Taxpayers may be able to use their ATM/Debit cards to pay at the counter or at kiosks, providing for the immediate transfer of funds to the County at no additional cost to the taxpayer. More recently emerging payment methods such as Check 21 will require further study by the Tax Collector and the Finance Department. Check 21 allows an electronic image of a check to be used as a basis for deposit of funds, and would therefore allow the Tax Collector to more quickly deposit funds. Check 21 may ultimately create the possibility that taxpayers insert a check into any ATM machine and pay their property taxes.

Electronic Payment Policy

The County has begun initial work towards a standard approach to the electronic payment of fees and charges across county departments. Although Information Technology Executive Committee (ITEC) approval and funding for this project has not yet been requested, the Controller-Treasurer has convened staff from the Information Services Department (ISD) and other departments to determine the scope of an RFP for e-payment services. Credit cards are currently accepted in multiple departments in Santa Clara County, including Valley Medical Center, the Office of the Assessor, Parks and Recreation, Child Support Services, the Recorder, and the Department of Revenue. In its FY 2005-06 budget reduction plan, Valley Medical Center reported that its co-payment implementation is expected to result in approximately $400,000 in additional revenue, partially as a result of the investment in credit card processing devices at clinics and the subsidy of credit card transaction fees by the County. The handling of transaction fees varies across departments, as some incur the cost in order to realize the related revenue, and others include the cost in the overall fee charged.

Prior to issuing an RFP for e-payment services, the Controller-Treasurer should provide recommended revisions to the cash handling policy to the Board of Supervisors regarding the acceptance of credit card and other methods of payment. The current cash handling policy of the County directs departments to encourage non-cash payment, that acceptance of credit card payments must be approved by the Controller-Treasurer, and that the Controller-Treasurer will instruct departments in the steps necessary to accept credit card payments. The cash handling policy is not sufficient in encouraging credit card and electronic payments and the policy does not articulate the Board's and County Executive's intent to increase use of more convenient and potentially less expensive credit card and electronic transactions.

The development of the policy should include input from the appropriate managers in the County. The Controller-Treasurer should participate given the role of the Controller-Treasurer in cash handling. The Chief Information Officer (CIO) should provide input into the technology to be used to accept credit card and electronic payments given the role of ISD (referred to as Data Processing in the ordinance) per current ordinance language to steer technology in the County. Finally, the Director of Procurement should participate in the development of the ordinance language and contracts, given the importance of credit card and electronic payment processing contracts delivering the best service at the lowest price to the county and the taxpayer. The electronic payment services of the Tax Collector and other County departments should be competitively bid or procured, after the policy on the acceptance of credit card payments and electronic payments in Santa Clara County is approved by the Board of Supervisors. Developing a County-wide policy is a more feasible goal than the e-payment solution currently underway, and the provision of a County-wide policy to departments will provide the information needed for consistency across agreements and a planned approach to the acceptance of credit cards and electronic payments.

Treatment of Transaction Fees

A fundamental decision for the Board of Supervisors is whether to encourage credit card and electronic payments of property taxes by incurring transaction costs, or to continue to discourage the payment of property taxes via credit card and electronic means by passing on the transaction fee to the taxpayer.

Our research into general government transaction fees and the electronic payment of property taxes indicates that, as a policy issue, many jurisdictions have not yet concluded whether to promote e-payments or not. However, savings related to electronic transactions versus face-to-face or over the counter transactions have been documented, usually related to the processing of vehicle registration. As described in the California Performance Review (CPR) and as implemented in July 2004, the State of California Department of Motor Vehicles (DMV) no longer charges a transaction fee for on-line vehicle registration. A 2001 American Association of Motor Vehicle Administrators cost model comparison concluded that e-government transaction costs would equal 65 percent less than over the counter transactions. A 2001 article in Federal Computer Week included quotes that the cost of an on-line DMV transaction was $2 compared to a face to face transaction cost of $5, and that the convenience or transaction fees represented an obstacle to increased volume of government on-line transactions. The Government Finance Officers Association (GFOA) has issued practice papers that promote the availability of credit card payment options to taxpayers, but also point out the need for governments to evaluate the costs and benefits of offering such payment options, and whether or not to incur or pass on the transaction costs. A January 2005 report issued by the California Legislative Analyst's Office on the potential consolidation of the Franchise Tax Board, the Board of Equalization and the Employment Development Department concluded the following:

> By placing increased emphasis and resources on electronic payments and document filing, ongoing savings would be in the order of $10 million to $20 million annually for the agencies combined.

Clearly, some jurisdictions have concluded that incurring credit card and electronic payment transaction costs for certain types of government functions is appropriate and may result in overall financial advantages and customer convenience. In the case of property taxes, the issue is more complicated. The federal law does not allow for the government to reduce the tax collected by incurring the transaction costs, and counties in California have elected to pass on the transaction fees associated with credit card payments to taxpayers. Further analysis in Santa Clara County is necessary to determine if high transaction fees charged to taxpayers paying by credit card and e-check have discouraged the volume of such payments to reach a level where administrative savings could be realized.

Legality of Governments Incurring Transaction Costs

The California Constitution states that public funds may not be made as a gift to individuals, municipalities or corporations. Courts have concluded that when the "gift" serves a "direct and substantial public purpose" and "nonstate entities are benefited only as an incident to the public purpose", the expenditure is not defined as a gift.[3] The Board of Supervisors could include either a portion or the entire transaction fee for electronic and credit card payments as part of the overall administrative costs passed on proportionately to allowable tax receiving entities. This change in policy should increase the volume of transactions, potentially providing administrative savings.[4]

Because the current business practice is to pass on transaction costs to taxpayers who pay with a credit card, we requested a legal opinion from County Counsel as to whether the County could decide to incur transaction costs related to credit card property tax payments, and pass this cost on to tax receiving entities proportional to other administrative costs. (Attachment 7.1) This opinion confirmed our conclusion that the County has the prerogative to charge the fee or not. However, the opinion raises concerns that passing on the transaction costs to tax receiving entities may represent a gift of public funds. In our opinion, if a projected volume of transactions under any method would result in administrative savings, the expenditure of funds to promote this method would meet the public purpose test, as described above.

Santa Clara County Credit Card and Electronic Payment Policy

The State of California provides an example of legislative consideration and policy related to payment by credit card that may be appropriate for use in the creation of a policy by the County. California Government Code Sections 6160-6166 require all departments of the State of California to provide customers with credit card and other payment options, authorizing the Director of the General Services Agency to negotiate the necessary contracts with credit card companies and fiscal intermediaries. California departments that conclude that the costs outweigh the benefits of providing these payment options, per the specific consideration of costs and benefits in the State law, must seek and receive approval for an exemption from the law. This policy approach provides the necessary taxpayer advocacy and the recognition that exceptions to the policy may be warranted. The County's current legislative priorities include support of the continued charging of transaction fees to taxpayers.

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[3] *California Housing Finance Authority v. Elliot* (1976) 17 Cal.3d 575,583. State of California Office of the Attorney General 97-407.

[4] Note: "Under the public purpose doctrine, public credit may be extended and public funds disbursed if a direct and substantial public purpose is served and nonstate entities are benefited only as an incident to the public purpose." (*County of Alameda v. Janssen* (194) 16 Cal.2d 276, 281, etc. as cited in *California Housing Finance Agency v. Elliott*, 17 Cal.3d 575.)

Government Code Section 6160 provides a list of the costs and savings State departments should consider when conducting an analysis of the cost-effectiveness of accepting credit card payments. These variables provide an excellent starting point for a similar County policy for credit cards and for electronic payments. The code section provides for agencies to apply for and receive an exemption from the requirement to accept credit card payments, when acceptance of credit cards would not be cost-effective or acceptance would result in reduced revenue for the State. The savings may not be realized in the initial years of implementation, and departments are authorized to accept credit card payments even if the costs are greater than known savings when the convenience to the customer is determined to outweigh the costs.

CONCLUSION

The Tax Collector accepts cash, checks, money orders and electronic transfers from commercial institutions without charge for payment of property taxes. Payments made by credit card or electronic check are subject to fees pursuant to contracts entered into by the Tax Collector and a private vendor. Although State law requires such contracts to be approved by the Board of Supervisors, this contract, which results in annual transaction fees of more than $400,000, has not received legislative scrutiny. Taxpayers using credit cards are charged 2.5 percent of the transaction amount, and e-checks are assessed a fee of $15 or $27 depending on the amount of the tax bill . Taxpayers have not been adequately represented in the execution of the transaction services contract for credit card and e-check property tax payments.

Due to the high fees charged for electronic credit card and e-check property tax payments over the Internet, taxpayers are discouraged from utilizing these alternative and potentially more efficient methods of payment. Based on surveys, some counties charge lower fees for credit card transactions and no fees for e-check payments. In addition, the Tax Collector's e-check fee is substantially greater than the charge to the Tax Collector under the e-check contract. Departments act independently and without policy direction in the acceptance of credit card and alternative methods of payment.

Tax Collector e-check and credit card payment service contracts should be reviewed and approved by the Board of Supervisors to comply with State law. The Board of Supervisors should enact credit card and electronic payment policies to ensure an appropriate balance between taxpayer convenience and County efficiency in the collection of property taxes and the collection of other County fees and charges.

RECOMMENDATIONS

The Tax Collector should:

7.1 Seek delegation of authority or present the current contract for credit card and e-check payment of property taxes to the Finance and Government Operations Committee and Board of Supervisors for approval. (Priority 1)

7.2 Provide an annual report to the Finance and Government Operations Committee to include the volume of property tax payment methods and the relative cost of each type of payment to the taxpayer and to the County. (Priority 3)

7.3 Reduce the e-check transaction fee to the transaction cost and any documented internal costs until the Board of Supervisors enacts policies related to the treatment of credit card and electronic transaction costs and fees. (Priority 1)

The Controller-Treasurer should:

7.4 Amend the County's cash handling policy to address the acceptance of credit card and electronic payments for County fees, charges and services, and present the policy to the Board of Supervisors for approval prior to issuing an E-Payment Request for Proposal (RFP). The proposed policy should include direction to departments to evaluate the costs and benefits of accepting credit cards and electronic payments when determining what forms of payment a department will accept. (Priority 2)

COSTS AND BENEFITS

The costs associated with the recommendations in this section of the report include the reduced e-check revenue should the fee be reduced. There will also be staff costs to develop policies and prepare the annual report for the Finance and Government Operations Committee. The benefits include compliance with State law and the intent of the County's contracting policies regarding the approval of credit card fees by the Board of Supervisors. Additionally, the negotiation of a lower credit card transaction fee represents a savings to taxpayers of approximately $60 on two $3,000 tax bills, or $100,000 total based on FY 2003-04 credit card transaction fees. The eventual savings based on policies set by the Board of Supervisors regarding the promotion of credit card and other payment methods would not be known until such time as policies are enacted and transaction volume increased.

Attachment 7.1

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MEMORANDUM

TO: Paul Murphy, Senior Management Auditor

FROM: David Kahn, Deputy County Counsel

RE: Credit Card Fees

DATE: April 15, 2005

QUESTION

Can the Board of Supervisors elect to allow property tax payments to be made by credit card and pass the credit card fee on to other tax receiving agencies as a component of the property tax administration cost?

DISCUSSION AND ANALYSIS

The County Tax Collector is responsible for the collection and allocation of real and personal property taxes within the County. Revenue and Taxation Code section 2501 states that taxes can be paid only in the mediums permitted by the Revenue and Taxation Code. Payment options include cash, excluding coins, electronic fund transfer, bank checks and money orders. (See Revenue and Taxation Code sections 2502, 2503.1, 2504.)

Revenue and Taxation Code section 2511.1 also allows, upon authorization by the Board of Supervisors, for payment of taxes by credit card. The County is permitted to negotiate a contract with a credit card issuer which shall include "the payment to the card issuer or draft purchaser of a reasonable fee or discount." The ability of the County to recover the fee paid to the credit card company is authorized in Section (4)(d), which provides:

> The county may impose a fee for the use of a credit card sufficient in amount to provide for the recovery of fees or discounts paid by the county under paragraph (3) of subdivision (b) and all other costs incurred by the county in providing for payment by credit. Fees imposed under this subdivision shall be approved by the board of supervisors.

It follows that the county can legally impose a fee on the individual taxpayer electing to pay with a credit card. This is what the county currently does.

You asked if the Board could choose to not impose a fee on the individual taxpayer and rather to pass the credit charges to the agencies the taxes are allocated to on a pro-rata basis. There are several legal concerns with this. First, the county could not pass on the percentage of the credit card charges attributed to the county's share of the tax allocation and would have to absorb these costs. Since the county has the option of requiring that all taxes be paid by cash or check, there is a potential issue if the county, in effect, subsidizes those taxpayers paying with credit by reducing their taxes by the approximately 1.5% charge resulting from payment by credit card. Although we could pass the credit card charge on as an additional administrative charge to the other taxing agencies on a pro-rata basis, we would then be reducing their taxes by the 1.5% for the credit charge and would need their knowledge and consent because of our fiduciary duty.

A consideration is that if the use of credit cards without requiring the taxpayer to reimburse the additional credit card charge could be demonstrated to reduce the number of delinquent accounts, resulting in more tax dollars received on time by the county and decreased administrative collection charges, the public benefit of allowing credit card payments without reimbursement of the fee could offset the loss of the 1.5% fee. But I question, given the high annual percentage rate that credit card companies charge on unpaid balances, whether the requirement to reimburse the county the fee for using credit to pay taxes has any impact on the number of persons choosing to use credit cards.

CONCLUSION

The Revenue and Taxation Code specifically provides for charging taxpayers electing to pay with a credit card the actual fee charged by the credit card company to the county. While you are correct that the county is not required to impose the fee and could absorb the extra cost and pass most of it on to other taxing agencies, this has the effect of providing some taxpayers with a reduction in the taxes actually received by the county and other agencies, and raises a gift of public funds question.

Section 8. Systems Development

- **The Tax Collection and Apportionment System (TCAS) project relies on the investment of County General Fund and other County resources, including Property Tax Administration Program (PTAP) funds and Tax Collector trust funds. The potential to market the system to other counties has been conceptualized by the Finance Agency but not reported to the Board of Supervisors. There is no process in place to validate the budgetary assumptions of the savings that will result, or to ensure that these savings are realized. The Information Technology Executive Committee (ITEC) consideration of General Fund support of the project does not consider all possible funding sources.**
- **The Board of Supervisors requires clear and comprehensive return on investment information by which to allocate limited resources to technology and capital projects. However, having been given limited information, the Board of Supervisors and the County Executive have not been able to consider the return on investment of TCAS or all available funding for the project. Limited General Fund Resources may be unnecessarily expended on TCAS when other appropriate funding sources, including PTAP, are available.**
- **The Finance Agency should develop and provide to the Board of Supervisors a business plan for the possible sale and implementation of TCAS in other counties. The Office of Budget and Analysis should test the budgetary assumptions of ITEC proposals and provide a report back to the Board of Supervisors on actual realized savings as part of the budget process. The ITEC process should include the consideration of all possible sources of support for recommended projects.**

Background

The Board of Supervisors first considered replacing the County's Tax Collection and Apportionment System (TCAS) in 1990, at a time when technology bonds were being issued and the capacity of technology to change the nature of government operations was still largely unknown. The County of Santa Clara has made advances in technology during the past 15 years, including the recent installation of the SAP accounting system, the provision of information and services to County residents through the County's Internet portal, and significant incremental improvements in the Tax Collector's technology and services. However, the replacement of the existing system with more modern technology has yet to be achieved. Information Technology Governance in Santa Clara County was defined in principle in the Board's 1996 IT Policy and Strategy as follows:

> To ensure projects are justified, prioritized, and their performance and results are aligned with the enterprise architecture and standards and are measured according to their return on investment (ROI) or return on value (ROV) initially defined.

Given the recent and current budget deficit situation, understanding the return on investment of proposed capital and technology projects has become even more important to the Board of Supervisors. Management Audit Division staff reviewed the materials related to TCAS, including the independent validation and verification report by the Gartner Group and the more recent reports to Information Technology Executive Committee (ITEC). We generally believe that the TCAS project is sound and that, given sufficient resources, the project should be given serious consideration for funding. At the time the management audit of the Tax Collector was completed, the TCAS project had been evaluated and reviewed by (ITEC) and had received the number one ranking among proposed projects. However, the Finance and Government Operations Committee had not reviewed the ITEC list, and the County Executive had not presented the FY 2005-06 Recommended Budget for consideration and approval by the Board of Supervisors. The ITEC request for FY 2005-06 funding of the TCAS project equals $1.8 million of General Fund support for a total planned year-one expense of $3.2 million. In the following three fiscal years, the TCAS project will require an estimated additional $7 million to complete. This finding will provide a more thorough examination of the budget components, the assumptions that underlie these components and the strategic and policy decisions associated with the TCAS project.

TCAS Description

The TCAS budget represents an additional $10 million investment of County resources over the next three fiscal years. The project is designed to be implemented in phases with deliverables at each phase. In the FY 2004-05 Recommended Budget, the TCAS project was described in the Tax Collector section:

> To address the need to replace the antiquated tax applications, the Finance Agency's Tax Collector's Office and Controller-Treasurer Department have undertaken a multi-year project to design, develop and implement a truly modern browser based Tax Collection and Apportionment System (TCAS). This project started in August 2003 and is currently in the design phase. TCAS is funded by a combination of prior-year technology funds, State/County Property Tax Loan/Grant funds, and the Delinquent Property Tax Improvement Fund. By the end of FY 2004, the detailed systems requirements will be completed, along with a detailed multi-year project implementation plan for the completion of the project with a phased implementation of major tax applications. The project goals for FY 2005 are the development of the Trust Fund System along with completion of the database design for all systems. **The core project will continue through FY 2005 without the need of additional General Fund appropriations.**[1] **(emphasis added)**

More recent transmittals by the Department include a request of $1.8 million in General Fund support in FY 2005-06 as part of the $3.2 million in planned FY 2005-06 TCAS expenditures, based on the availability of $1.4 in previously allocated PTAP, Tax Collector Trust Funds and General Funds. TCAS has become another ITEC project competing for limited General Fund support. As context to the TCAS request relative to

[1] County of Santa Clara FY 2005 Recommended Budget, page 258

recent funding of ITEC projects, only a little more than $1.2 million was allocated to fund all technology needs in FY 2004-05.

County Investment in TCAS

The Tax Collector and the Information Services Department (ISD) have made unsuccessful previous attempts to develop and implement a modern Tax Collection and Apportionment System. Three prior attempts to replace the Tax Collection and Apportionment System have been unsuccessful. A 1990 internal effort reportedly failed because the system did not work effectively; the County ended a second effort during the process based on external factors; and the third attempt was ended by the County concluding that continuing would result in higher losses of County funds without a working system.

Despite these setbacks, the Tax Collector has increased the efficiency and effectiveness of the collection of taxes during this period using machinery and technology. Improvements include the installation of a machine to open mail (OPEX); a machine that processes checks and tax payment stubs, scanning both sides of these documents for on-screen reconciliation (BancTec); and improvements in the current Tax Information System (TIS) to increase the information available to staff and taxpayers. Also, the Finance Agency has implemented an on-line bill presentment and tax bill acceptance system and completed other incremental improvements, such as the transfer of many processes from the mainframe environment at ISD to servers located in the Tax Collector's Office.

The Finance Agency has created the TCAS team. This group of Tax Collector and Controller-Treasurer staff have developed the specifications of the project, drafted "use cases" to document the current and planned business processes to collect and apportion taxes, and tested the chosen approach with a vendor on the apportionment calculations that take place each year. As discussed in Section 9 of this report, the TCAS team has also communicated the project plan to staff. In addition to the requested $1.8 million General Fund support in FY 2005-06, the County has made a significant investment in the TCAS project by allocating Property Tax Administration Program funds, General Fund resources and accumulated Tax Collector trust fund resources in previous years.

Sale of TCAS to Other Counties

The TCAS project seeks to deliver a table driven solution to the collection and apportionment of taxes in Santa Clara County. There are many advantages to such an approach, including the ability of the County to efficiently amend the system when changes in California tax law take place. A secondary advantage of the table design is its transferability to other California counties, including large counties that may be interested in replacing their systems. In its proposal to ITEC for General Fund support of the TCAS project, the Tax Collector did not include any discussion of the plan to market and sell the new system to other California counties, from which significant royalty or license revenue may be realized. In our interviews with Tax Collector staff, we heard repeatedly of the potential for the TCAS Solution to generate additional revenue as a result of it being the only one of its kind replacement system for large

California counties. In the independent report to validate the development strategy of TCAS, the project is described in terms of its business requirements, one of which is to "develop flexible systems that appeal to California counties as an exemplary solution." However, the estimated revenue has not been programmed into any budget estimates presented to the Board of Supervisors, or even described qualitatively.

Management Audit Division staff were informed that the issue of royalties and licensure revenues was discussed with the previous vendor, and that draft language related to the obligations and rights of both parties was developed. The Exhibits and Contents section of a draft contract includes an exhibit titled "Royalty Payments," but Tax Collector staff were unable to locate and provide this language to the Management Audit Division. We therefore recommend that an off-agenda report be provided to the Board of Supervisors, and that it include this draft language, or an example of the language that would be included in the contract. This is important so that the Board of Supervisors understands the type of business strategy they are endorsing and the related exposure for them and the County.

The Specifications Document related to TCAS includes multiple statements indicating the Tax Collector and the Finance Agency intend to market and sell the eventual system to other California counties. The Tax Collector's TCAS team and the Management Audit Division conducted surveys of other California counties regarding their tax collections and apportionment systems. Results indicate that there may be opportunities for marketing and sales to occur, and the Tax Collector reports that they believe they will be the first to market with a comprehensive and modern system, despite a similar effort that is taking place in San Diego County. Because TCAS is still in its development and a vendor contract has not been drafted or negotiated, a firm estimate of the revenue that may be realized from the business plan is not possible. However, because a key variable by which ITEC projects are to be judged is their ability to generate revenue, this information should be provided to the Board of Supervisors when available.

A second and possibly more important reason for the Finance Agency to provide the business plan to the Board of Supervisors is the role of the Board in the overall governance of the County. The marketing and sale of TCAS to other counties represents a policy decision by the Finance Agency to significantly exceed its current role. While the plan may be one that the Board supports and approves, full disclosure of this type of business strategy should take place before significant County staff time and other resources are expended pursuing this strategy. Furthermore, the business plan as described will require additional investment in staff time, not only by Finance Agency staff but also County Counsel and Procurement. Work will be required to ensure that the Request for Proposals (RFP) and the eventual contract clearly articulate the rights and obligations of the County and the vendor in the sale and installation of TCAS in other counties. County Counsel has already prepared opinions concluding that the TCAS documentation is not in the public domain per previously enacted State law, and that the Tax Collector can copyright the documentation related to the TCAS system. County Counsel will have to investigate the treatment of the eventual revenues, determine whether an Enterprise Fund or some other separate entity may be required to account for costs and revenues from this system, and communicate the necessary steps to the Finance Agency and the Board of Supervisors. These costs are an additional component of the development of TCAS and not necessary to simply replace the current system.

The Tax Collector and the Finance Agency should provide an off agenda report to the Board of Supervisors describing the business plan to market TCAS to other California counties. This report should include a business plan, an estimate of the additional costs to proceed, a general estimate of revenue that may be realized, and possible methods by which the revenues can be treated and eventually be recognized as General Fund savings.

Management Audit Division staff determined that the Tax Collector and the Finance Agency intend to appropriately utilize the services of both Procurement and the Office of County Counsel in the development and execution of the TCAS RFP. However, we did not determine whether Procurement costs had been included in the budget for TCAS or the $1.8 million request to ITEC for FY 2005-06. The revised Information Technology Funding Request Instructions directs departments to contact the Director of Procurement and County Counsel to determine such costs prior to submitting a proposal.

Budget Accountability

The dedication of limited General Fund resources to technology projects requires budgeted savings to be validated and actual savings to be realized. In a December 9, 2004 report to the Finance and Government Operations Committee regarding the importance of the Tax Collector and Assessor continuing to participate in the ITEC process, the County's Chief Information Officer (CIO) stated:

> Inadequate review of projects and their potential risks, approach and resource requirements may produce detrimental impacts to the projects and their success. These are large, complex and multi-year projects that can be easily impacted if resources, funding or scope are changed in a negative manner.

The County's 1996 Information Technology Policy and Strategy includes the following Guiding Principle:

> Quantifiable benefits will be identified in terms of cost reductions or avoidance, increased productivity, or in terms of increased revenue to offset the cost of implementation. This should include a clear delineation of the beneficiaries of the investment with a focus on supporting or improving service to the County's clients.

Because a primary focus of the Board of Supervisors in the approval of technology funds has become the relative return on investment of each project, departments are encouraged to identify potential cost savings that will be achieved if their project is approved and implemented. The 1996 Management Audit of the Data Processing Department contained recommendations that the Internal Audit Division (IAD) be assigned the task of evaluating the assumptions underlying technology funding requests and that IAD conduct post implementation reviews of technology projects to ensure savings were realized by the General Fund. These recommendations would have ensured that savings claimed in order to justify program costs were realized and recognized in future years. Although ITEC provides some information related to future savings of proposed projects, the validation of either the assumptions of funding requests or the actual savings realized by projects may not occur. In the case of TCAS, the claimed savings are significant, and require a formal reporting mechanism to ensure these savings take place and are realized.

There are two primary budgetary assumptions of the TCAS project, as reported to ITEC on March 11, 2005. The first is an estimate of the savings from TCAS – 36,000 staff hours annually, equal to approximately 18 positions, as discussed further in Section 9. Management Audit Division staff have reviewed the basis for this estimate, the Tax Collector's Business Case and the related "To Be Versus As Is" document. Given the expected efficiencies in automation to be gained by TCAS, and review of the 18-position calculation with Tax Collector staff, we conclude the estimate is conservative. A clarification provided by Tax Collector staff regarding the position count is that the positions are not from the Tax Collector alone; positions in the Controller-Treasurer's Office under the apportionment function may be available for elimination as well when the project is complete.

The second budgetary assumption of TCAS is the increased collections that will occur as nine of the 18 "saved" positions are redeployed to the collection of delinquent taxes on the unsecured roll. Management Audit Division staff agree that additional staff will be able to increase the collection of taxes, as there are significant uncollected amounts and the more quickly delinquent accounts are worked the more successful collections efforts will be. The increased collections in the TCAS budget will be largely one-time, as the delinquent amounts have accumulated over multiple years, which is described more fully in Section 2 of this report. As a result, the annual savings will be considerably less, requiring the continued funding of the additional tax collection positions. However, because all penalties related to unsecured taxes in Santa Clara County are realized by the County General fund and are not apportioned to the other tax receiving entities, the estimated increased General fund amount in the report by the Tax Collector understates the General Fund portion. The Board of Supervisors should realize this savings in future years by increased fund balance.

The primary reason to develop and implement TCAS is the collection of property taxes; the projected savings are also important in assessing the overall value of the project relative to other technology requests. Given the expected budgeted expenditures at a time when General Fund resources are limited, these pledged savings should be closely monitored and annually reviewed by the Finance Agency and provided to the Board of Supervisors for use in the budgeting of County-wide savings. The Finance Agency's estimated financial benefit from the full and complete TCAS project is not clear from the documentation provided to ITEC and the Board of Supervisors. While we recommend the use of available non General-Fund support be considered, according to the preliminary assumptions of the Finance Agency, the County will realize a significant one-time return on investment and some annual savings as well. Table 8.1 was developed by Management Audit Division staff based on data obtained during the audit and our own estimates.

Table 8.1

Estimated County Savings from the TCAS Project

Estimated Savings	Benefit
Positions eliminated (11.5 FTE)	880,871
ISD Services no longer necessary	1,700,000
Increased Collections (One-time and Annual at 28%)	5,040,000
Subotal	**7,620,871**
Potential Revenue/Costs	
Sale of TCAS to a single County	1,000,000
Increased Costs to Implement TCAS (5%)	(535,000)
Total TCAS Savings	**8,085,871**

We have made several adjustments to the savings components based on information gathered during the management audit to arrive at the estimated savings as shown in Table 8.1. In sum, the actual savings at the end of the project may be as high as $8.08 million through a combination of one-time and annual savings. Adjustments to the Tax Collector figures include the inclusion of the $1.7 million in ISD savings that the Tax Collector has indicated will occur and the use of the County's productive hourly total to arrive at 11.5 rather than nine potential FTE reductions. An adjustment was also made to the staff savings, given the passing on of costs to taxing entities. The increased collections will be a combination of one-time and annual savings, as the Tax Collector should quickly catch up on delinquent taxes given the planned redeployment of nine staff to the Unsecured Collection Unit. The table also reflects potential revenue related to the sale of TCAS to another California County. A 5-percent increased cost element is included, given Procurement, County Counsel and other costs that may not have been budgeted in the project. Both the savings pledged by the Tax Collector to secure funding for TCAS and the adjustment we have made require annual refinement if the project proceeds, especially given the agile approach of the project. The validation of project savings when they are proposed and annual review to ensure actual savings are realized are important components in the Board's focus on the return on investment of TCAS and all technology projects.

Role of the CIO in ITEC

County Ordinance A34 defines the Data Processing Department, now Information Services Department (ISD), and describes the role of the Director in determining the County's technology needs. The ordinance indicates that the Director shall be in charge of data processing functions of the "agency" and that the agency shall "conduct planning and programming of data processing procedures for the various County departments and shall recommend priorities and establish operating schedules for data processing." Noncentralized data processing (i.e., department specific) is to be recommended only when appropriate, and is to be coordinated with data processing. Finally, Data Processing, per the standing County ordinance, is to "determine the specifications of equipment best suited to the data needs of the County, and shall participate in the selection of equipment."

Clearly, the current ordinance does not capture the current practice related to information technology, and does not adequately describe the manner in which competing technology funding requests are evaluated and forwarded to the Board of Supervisors for approval. The Management Audit Division previously recommended the revision of this ordinance code section in the 1996 Management Audit of Data Processing. The audit identified a lack of an Information Systems Master Plan. The audit also recommended a more formal structure to what was then called the Technology Committee. The ordinance section has not been revised, but the position of CIO was created, and (ITEC) and the Information Technology Governance Committee (ITGC) have provided the more formal review of proposed technology projects envisioned in the previous management audit.

The Office of County Counsel, in collaboration with the ISD Director and CIO positions, which are held by the same person, have begun a process to draft revised ordinance language to operationalize the authority of the CIO. Because of the dual role of the ISD Director in reviewing ITEC projects that may result in decreased ISD funding, we recommend that the Office of Budget and Analysis (OBA) validate the proposed savings of projects, and review the actual savings each year as part of the annual budget process. OBA completes informal reviews of certain assumptions in information technology projects. The formalized review of budget assumptions in these proposals and the subsequent review of actual savings, will ensure that departments submit ITEC proposals that are reasonable, and that actual savings are eventually realized.

Non-General Fund Support of Technology Projects

The County of Santa Clara faces a projected budget deficit of between $115 million and $134 million in FY 2005-06, necessitating reductions in services and staff across the majority of County departments. One-time funds of at least $39.9 million will be used to fund the continued provision of services. At the same time, core technology replacement projects will be considered by the County Executive and the Board of Supervisors, and presumably funded to some extent in FY 2005-06. The FY 2005-06 ITEC General Fund request for support of the TCAS project equals $1.8 million, resulting in total available resources of $3.2 million for expenditure in FY 2005-06. The $1.4 million in non-General Fund support is a combination of unexpended, previously allocated Property Tax Administration Program (PTAP) funds and accumulated funds in a Tax Collector trust fund from the $20 processing fee attached to late property tax payments. Given the opportunity cost of General Fund resources in FY 2005-06, all sources of support for the TCAS project, especially non-General Fund restricted sources such as PTAP funds, should be considered by the Board of Supervisors to be used prior to General Fund monies. ITEC projects should be funded with available restricted resources prior to the use of discretionary General Fund monies when it is appropriate and determined to be legal to do so.

Property Tax Administration Program Support of TCAS

The Tax Collector and the TCAS project staffing and expenditures have been funded in part by the Property Tax Administration Program (PTAP) in the past. The minutes of the December 9, 2004 Finance and Government Operations Committee indicate the

County Executive views the TCAS project as crucial, and that the possible increased funding of the project using PTAP resources may be proposed. The minutes state that the County Executive raised the issue of whether PTAP funds could be used to fund TCAS.

The TCAS project is taking place at the same time that the Assessor is developing a replacement Assessor Information Management System (AIMS). The AIMS project has an estimated cost of $19 million and completion is expected in approximately six years. A governance entity has been created to maximize collaboration and integration of the two systems. Continued progress towards creating two systems that will be able to send and receive data was verified at the time of the audit. Additionally, documentation and interviews with Tax Collector staff provided a reasonable basis for separate systems being created. The Assessor has previously supported the TCAS project, both by recommending funding of positions and project costs. According to the Assessor's FY 2005-06 Recommended Budget memo to the County Executive dated February 24, 2005, more than $3.4 million will have been directly allocated to the Tax Collector as of FY 2004-05.

The scope of our audit did not include the Assessor's role in the collection and apportionment of property taxes. Therefore, we have not made any judgment as to the relative value of the AIMS project. However, in our review of the funding of the TCAS project, we have concluded that the Board may not have been made fully aware of the availability of PTAP funds to support the TCAS project, rather than the requested General Fund dollars. While there has been considerable disagreement regarding allocation and expenditure authority of PTAP funds, the Finance and Government Operations Committee continues to clarify the position of the Board and its authority in the programming and budgeting of these funds in accordance with the Revenue and Taxation Code. The Assessor has a lead advisory role in providing recommendations related to the expenditure of PTAP funds, but the Board of Supervisors makes the ultimate decisions regarding the budgeting and expenditure of PTAP resources.

The Board of Supervisors receives updates on the expenditure of PTAP funds, but has not previously made substantive review of the overall expenditure of these resources. The list of projects recommended for FY 2005-06 General Fund Support forwarded to the Finance and Government Operations Committee does not include the AIMS project, but the Assessor and ITEC have provided the committee with a comprehensive Business Case for the AIMS project and quarterly ITEC updates. In recent written communication between the Assessor and the Board of Supervisors, the current and limited role of the Board of Supervisors in considering competing projects for PTAP grant support is described in relation to the Assessor's AIMS project:

> Finally it should be noted that each step along the way, the Assistant Assessor and the Assessor's Information Systems Director have continued to keep the CIO and ITEC apprised of our activities and progress. Similarly, the CIO has kept the

Finance and Government Operations Committee and the Board of Supervisors apprised through his quarterly reports.[2]

The reporting of progress and activities may have been sufficient in previous years when the Administration and the Board of Supervisors had not sought to clarify their authority over the programming and budgeting of PTAP funds. More explicit review by ITEC of all projects that meet the defined purpose of the PTAP grant under the law should now take place. Such review prior to the grant application being submitted will ensure that modifications of the approved grant budget are not necessary to reallocate PTAP funds to other property tax administration functions determined by the Board of Supervisors to be of the highest priority. The accumulated unexpended PTAP funds should also be considered by ITEC to fund TCAS, so long as the expenditures meet the statutory requirements of the grant, as determined by the Office of the County Counsel, and the expenditures are reported to the Department of Finance. The annual expenditure of PTAP grant funds should be based on recommendations by the Assessor, reviewed by ITEC, and approved by the Board of Supervisors based on the relative value of each request in meeting the statutory requirements of the grant and improving the County's tax system. Given the strong differing opinions regarding whether the County can legally expend PTAP funds on TCAS and other projects, we recommend that the Office of the County Counsel provide the Board of Supervisors with a written legal opinion. This opinion should specify the authority of the Board of Supervisors to expend prior year, current year and future PTAP funds. This opinion should also address specifically whether the Board of Supervisors is obligated to obtain the written approval of the Assessor or the Department of Finance to amend an existing contract or modify a PTAP expenditure plan during the fiscal year. Each year, departments propose PTAP funding to the Assessor's office. These funding proposals may support technology projects or staffing that meets the statutory requirements of the grant and they are tied to measurable improvements in the tax system. For technology projects, this is a parallel process to the ITEC consideration and review of projects, and as such, it complicates the ability of the Board of Supervisors to compare the various tax-related projects that may have sought, or be appropriate for, PTAP support.

Increased review of the planned expenditures of funds from PTAP will ensure that the funds are expended according to the statutory requirements and in a manner that assists the County in "administering the County's property tax administration system."[3] Additionally, formal review by ITEC of all planned PTAP expenditures for technology projects will provide additional assurance that any proposed technology projects comply with the funding restrictions related to PTAP grants.

The most recent Exhibit A from the Property Tax Administration Program Grant indicates that the Assessor expects to carry over $13,099,351 in accumulated unspent funds on June 30, 2005. The actual cash balance in the PTAP funds as of April 8, 2005 was actually $18,628,872[4]. The exhibit also indicates that the Assessor expects to carry

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[2] March 22, 2005 Salary Ordinance Amendment Adding one Information Systems Manager III from the Assessor to the Board of Supervisors, ASR01 032205.

[3] FY 2006 Recommended Budget Memo to the County Executive from the Assessor, February 24, 2005

[4] SAP Trial Balance Report for Trust Funds 0269, 0270, 0290 and 0291 as of April 8, 2005.

over an additional $11,660,246 as of June 30, 2006. Based on a high level Summary of Preliminary Estimated Costs for Proposed Implementation Strategy of the AIMS project provided to FGOC, the project is expected to expend no more than $6 million by the end of FY 2006-07. Therefore, given an opportunity to review all available PTAP resources and appropriate projects, the Board of Supervisors may choose to fund the TCAS project and the AIMS project on a year-to-year basis with PTAP funds, allocating General Fund monies as necessary at the end of the funding cycle for the two projects.

There are three potential means by which the Board of Supervisors could fund the $1.8 required TCAS expenditures in FY 2005-06. The methods are not mutually exclusive; a combination could be used to identify the required $1.8 million. The following list includes the language "or subsequent fiscal years" because in order to secure PTAP funding for FY 2005-06, the agreement between the State and the County must be executed and approved by June 30, 2005. At the time this report was finalized, it was not clear whether the report would be issued prior to the FY 2005-06 Budget hearings, and the presentation of the audit was scheduled for August 2005, after the Budget hearings. Regardless, the recommendations continue to be relevant to the budgeting of PTAP and other ITEC projects in FY 2006-07 and subsequent fiscal years:

1. Modify the FY 2005-06 or subsequent fiscal year PTAP Grant prior to execution with the State Department of Finance to include as much as $1.8 in TCAS expenditures. This method would require an equal amount of reduced budgeted expenditures in the proposed Grant Exhibit A.

2. Identify and allocate PTAP interest earnings to FY 2005-06 or subsequent fiscal year TCAS expenditures, after confirming that this action is legal based on the previously described opinion from County Counsel, including the amended use of the funds in the FY 2005-06 Grant Agreement.

3. Identify and allocate previously received and unexpended PTAP Grant resources to FY 2005-06 or subsequent fiscal year TCAS expenditures, after confirming that this action is legal based on the previously described opinion from County Counsel, including the amended use of the funds in the FY 2005-06 Grant Agreement.

The TCAS project is also supported by funds from accumulated $20 penalties from taxpayers for late payments, known as the Technology Trust Fund. The use of these funds to support the TCAS project is appropriate. However, these funds could also be used to offset current General Fund expenditures on existing technological improvements in the Tax Collector's Office, as was the case when these funds were used to create the on-line bill presentment system. Therefore, the availability of these funds to support current expenditures should be made clear to the Board of Supervisors as described in Section 3 of this report.

There may be other instances when non-General Fund support for proposed technology projects is available but not made clear. Therefore, we recommend ITEC proposals include a description of the efforts by the Tax Collector, and other Departments, to identify and secure all available funding. The Office of Budget and Analysis should then review this section of the proposal as part of the validation of the budget assumptions.

CONCLUSION

Evaluation of proposed County technology projects should include an assessment of all potential funding sources. Currently, PTAP grant funds are not considered as a potential funding source, or projects eligible for PTAP funding are not submitted to the County's Information Technology Executive Committee (ITEC) for consideration. As a result, all proposed technology projects are not evaluated in a comprehensive way to ensure that the Board of Supervisor's appropriation of General Fund monies occurs in a manner consistent with its County-wide priorities.

By expanding the scope of ITEC's review responsibility, and assigning the analysis of projected savings resulting from proposed and approved technology projects to the Office of Budget and Analysis, the Board of Supervisors will receive cost/benefit information needed to efficiently prioritize technology appropriations. In addition, the Board of Supervisors may consider funding the Tax Collector's TCAS project with PTAP monies.

RECOMMENDATIONS

The Tax Collector and the Finance Agency should:

8.1 Provide an off agenda report to the Board of Supervisors describing the business plan to market TCAS to other California counties. (Priority 3)

The Tax Collector should:

8.2 Provide an annual report to the Board of Supervisors through the ITEC process quantifying the achieved efficiencies, elimination of positions and increased collection of property taxes from TCAS. (Priority 2)

The Office of Budget and Analysis should:

8.3 Validate savings and revenue estimates included in proposals to the Information Technology Executive Committee and follow-up to ensure actual savings are realized after approved projects are implemented. (Priority 2)

8.4 Review ITEC proposals to identify all potential and appropriate revenue sources available to fund each proposal. (Priority 3)

The Board of Supervisors should:

8.5 Request a formal written opinion from the Office of the County Counsel specifying the authority of the Board of Supervisors in the appropriation and re-appropriation of prior year, current year and future PTAP funds. (Priority 1)

8.6 Consider utilizing PTAP funds for all PTAP-eligible technology projects, including TCAS, prior to approving General Fund expenditures. (Priority 1)

COSTS AND BENEFITS

The benefits associated with the recommendations in this section of the report include validity of ITEC budgetary assumptions and realization of actual savings from ITEC approved projects, including TCAS. The recommendations also provide the potential to increase non-General Fund support of TCAS and other ITEC projects, reducing General Fund resources and making such resources available to support ongoing operations. The identification and allocation of non-General Fund resources in FY 2005-06 could reduce General Fund expenditures of $1.8 million on a one-time basis, and approximately $3 million annually for the subsequent two fiscal years.

ADDITIONAL COMMENTS

Subsequent to the completion of the final draft of this report and prior to its release, the Board of Supervisors approved funding of FY 2005-06 TCAS expenditures from a combination of previously unidentified Assessor salary savings and funds originally programmed for the implementation of the AIMS/TCAS interface. Additionally, the County Executive has indicated that he will be working with the Office of the Assessor during FY 2005-06 to develop a multi-year plan for the funding and completion of the TCAS and AIMS projects, in a manner consistent with the recommendations in this section of the report.

8.6 Consider utilizing PTAP funds for all PTAP-eligible technology projects, including TCAS, prior to approving General Fund expenditures. (Priority 1)

COSTS AND BENEFITS

The benefits associated with the recommendations in this section of the report include validity of ITEC budgetary assumptions and realization of actual savings from ITEC approved projects, including TCAS. The recommendations also provide the potential to increase non-General Fund support of TCAS and other ITEC projects, reducing General Fund resources and making such resources available to support ongoing operations. The identification and allocation of non-General Fund resources in FY 2005-06 could reduce General Fund expenditures of $1.8 million on a one-time basis, and approximately $3 million annually for the subsequent two fiscal years.

ADDITIONAL COMMENTS

Subsequent to the completion of the final draft of this report and prior to its release, the Board of Supervisors approved funding of FY 2005-06 TCAS expenditures from a combination of previously unidentified Assessor salary savings and PTAP funds originally programmed for the implementation of the AIMS/TCAS interface. Additionally, the County Executive has indicated that he will be working with the Office of the Assessor during FY 2005-06 to develop a multi-year plan for the funding and completion of the TCAS and AIMS projects, in a manner consistent with the recommendations in this section of the report.

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Section 9. Business Process Transition Planning

- **Since FY 2000-01, the Tax Collector's Office has been actively planning for and designing a new system to replace its existing tax collection management computer system. The proposed new Tax Collection and Apportionment System (TCAS) will require the reengineering of business processes in the Tax Collector's Office, and is projected to result in the elimination or redeployment of 18 positions in the Finance Agency. Personnel responsible for the implementation, utilization and maintenance of the new system will need to continue the collection of taxes, test and learn the new processes and participate in the implementation as positions are eliminated.**

- **Implementation of the new system will require existing Tax Collector personnel to be trained to understand, use and maintain the new system to successfully migrate into this new structure and process. However, a comprehensive training plan has not yet been developed. Neither the staff requirements that the new system will demand nor projected personnel changes have been communicated to staff, affected labor organizations or the Employee Services Agency.**

- **As a result, projected cost savings and operating efficiencies of the new system may not be realized as planned, and implementation of TCAS may be delayed until staff are adequately trained. In addition, the current positive labor relations and high morale within the Tax Collector's Office may be compromised if the anticipated changes are not fully disclosed with the assistance of the Employee Services Agency early in the process. A decrease in staff confidence and trust could result in losses in productivity and tax collection during and after implementation of the new system.**

- **By developing a comprehensive training and transition program, with the assistance of the Employee Services Agency, that provides existing staff with the knowledge and skills necessary for the successful operation of the new system, implementation delays can be avoided and high tax collection rates can continue without disruption.**

Background

At the time of this report, the Tax Collection and Apportionment System (TCAS) had been reviewed by the Information Technology Executive Committee (ITEC) and Information Technology Governance Committee (ITGC). Both groups had ranked the project at the top of its list for funding, but the Recommended Budget had not yet been released and the Board had not yet funded technology projects for FY 2005-06. This finding describes transition planning should TCAS be approved and funded.

As detailed in Section 8 of this report, the County has already made a significant investment in the project and the Department has positioned itself to create and implement the system. When one considers that the Tax Collector has an annual receivable account of over $2 billion and that the collected taxes are used to fund the full array of services provided to residents, the collection and apportionment of taxes should be considered a core function of local government. Three prior attempts to replace the Tax Collector's legacy systems have been unsuccessful. Therefore, Management Audit Division staff have sought to identify project areas that require more focused attention in order to maximize the opportunity for the current effort to succeed. Developing a comprehensive training and transition plan is such an area.

Tax Collection and Apportionment System

The public purpose of the Tax Collector is to "maximize tax revenue to support services to County residents,"[1] as described elsewhere in this report. Bills are prepared and mailed, payments are received and processed, and checks are deposited to be applied against funds precisely and accurately apportioned to cities, school districts and other tax receiving entities. The function appears straightforward. However, there are numerous complexities and many individual circumstances that require the Tax Collector to have sophisticated and extremely stable methods to store billing and payment history and track changes in the tax amounts due to the county. The system must also perform Auditor-Controller functions, including the calculation of the appropriate amounts to apportion to the many entities for which the Tax Collector acts as the fiscal collection agent.

Each parcel on the secured side and assessment on the unsecured side represent individual accounts, and each account can quickly become a very complicated set of bills, payments, adjustments and narrative history of interaction between the taxpayer and the Office of the Tax Collector. A tax collection system must provide protection against error, fraud and theft of funds, and it must deliver information to staff that they can use to provide excellent customer service to persons seeking to meet their obligation to pay their taxes.

The most significant theme of the change expected in TCAS is the movement away from the repetitive and manual processes that currently take place towards automated processes. For example, whereas unsecured tax collectors must write out receipts by hand for all monies they collect currently, TCAS is expected to provide an electronic receipt. Rather than a batch process where the system "tape" must be replaced to reflect changes, TCAS will be a real time system, displaying the most current data and information available to users and taxpayers. At least 36,000 hours of staff work that currently takes place each year is expected to no longer be necessary when the system is fully implemented.

In interviews with management staff of the Tax Collector's Office, the significant scope of the TCAS project, actually termed the "Solution" was consistent. Staff indicated that the system, when implemented, would result not only in efficiencies in the processing of payments and collection of taxes, but that the changes would be so significant that the entire departmental organizational structure would need to be re-examined and altered. Because the current organizational structure of the office reflects the manual

[1] FY 2004-05 Recommended Budget, page 256.

processes and the various segregated older computer systems, the new system structure probably will result in the office's eventual reorganization.

The replacement of the current Tax Information System (TIS) with TCAS will do more than change the manner in which the Tax Collector bills and collects taxes. TCAS is actually expected to automate the billing and collection to such an extent that previous analytical, budgeting and customer service functions will be facilitated with more sophisticated data and additional staff time projected to become available. When one considers the difference in skills of current staff who process payments one at a time versus staff with the analytical skills necessary to carry out these enhanced functions, the enormity of the changes expected with TCAS in the Tax Collector's Office become readily apparent. The specifications of TCAS include requirements that the new system be such that an internal user could be completely trained and productive on the new system in two days. This requirement seems aggressive, given the current specificity with which Tax Collector staff perform their work and the breadth of the change, as described in the TCAS documentation.

Personnel Changes Related to the TCAS

Two primary documents include the projected efficiencies and elimination of positions expected when TCAS is fully implemented. The first document is the Business Case of TCAS, specifically the "As Is Vs To Be" portion that designates specific direct staff hours that will no longer be required when TCAS is in place. The total of these hours is 59,059, spread across the functions of the Tax Collector, Controller-Treasurer and Information Services. The document also includes expected increased hours in some functions, causing the net reduction to equal 50,819 hours. A subsequent March 11, 2005 report back to ITEC by the Finance Agency and a description of the TCAS project from the April 12, 2005 Finance and Government Operations Committee include projected personnel changes under TCAS. The documents state that 18 positions will no longer be necessary in the Offices of the Tax Collector and Controller-Treasurer, and that of the 18, nine will be eliminated through attrition and nine others will be reclassified to collect delinquent taxes. The document makes an average assumption for the salary of staff, and it does not include data related to years of service among employees of the Tax Collector or interest in retirement of the existing staff. No detail on which positions will be eliminated is included in the document, which is reasonable given that the project is still in its initial stages of development.

Based on these two documents, positions will be eliminated in the Tax Collector as a result of implementing TCAS. As discussed further in this section of the report, management of the Tax Collector and Finance Agency have not directly communicated the projected personnel changes of TCAS to employees and labor organizations. Disclosure of projected staffing changes and elimination of positions should be taking place, as the Finance Agency has released documents detailing the proposed elimination of positions.

Impacts on Other Departments

One of the bases for the cost-effectiveness of the TCAS Solution is the elimination of current charges by the Information Services Department (ISD) to the Tax Collector for the provision of mainframe capacity and services related to various aspects of the Tax Information system currently in place. The "To Be Vs As Is" document states that the changes in computer processing will result in the elimination of $1.7 million per year of ISD costs, and that the only potential continued service will be the printing of the tax bills by ISD.

This reduction of reimbursement to ISD will have staffing impacts and may result in the elimination of positions. The apportionment of taxes and the building of the roll calculations are Auditor-Controller functions, and the cashiering function at the counter of the Tax Collector's office is also provided by the Controller-Treasurer. These and other functions of the Controller-Treasurer will be impacted by the implementation of TCAS. Clearly, the TCAS project represents a significant change in the overall business process and personnel structure of Finance Agency departments and ISD.

Transition Planning

In the context of this discussion of the changes expected as a result of TCAS, transition planning is meant to describe the manner in which the Tax Collector and TCAS managers prepare the Office of the Tax Collector for a significant change in the way they do business. Different than the private sector, the Tax Collector will not be able to release any employee who does not have the skills and knowledge necessary to operate TCAS. Therefore, the Tax Collector must ensure that the development and implementation of TCAS includes a detailed transition plan to assess the current skill sets of staff, and, if necessary, provide additional learning opportunities prior to the implementation of TCAS in each Tax Collector unit. Additionally, staff must be informed of the elimination of positions and proposed addition of positions in each unit, so staff can develop the skill sets suitable for units that will be augmented.

The basic strategy of the TCAS project is to create a team of Tax Collector and Controller-Treasurer staff with specific business knowledge, skills and technical expertise to define the required functionality of the system and work with a development vendor to create the new system. This inclusive approach has been implemented, as the TCAS team has been formed and has developed the specifications of the system, completed numerous Use Cases regarding specific activities in the Offices of the Tax Collector and Controller-Treasurer, and has established methods to keep staff informed. These methods include the posting of much of the TCAS documentation on the Tax Collector's internal website, periodic meetings with individual units of the Tax Collector's Office and inclusion of mid-level managers to test the conclusions of the team in regards to the specific actions that occur to complete procedures and the optimal design of such procedures in the new system.

TCAS team members are expected to eventually transition into trainers of the new system. An April 2004 validation report on the TCAS project, completed by an independent firm, indicated that the Tax Collector was then developing a change management methodology. The TCAS manager possesses written materials about change management and intends to use this method with TCAS. However, the TCAS project team has focused its efforts to date on the Business Case, the development of technical specifications, and primarily on the work necessary to secure funding for the project to continue. Therefore, the transition planning related to the TCAS project had not yet been formulated or initiated at the time of the audit.

There are three primary aspects of a successful transition plan: a method by which staff can migrate their skills from those they presently possess to the new skill set; the coordination of training and communication with the Labor Relations and Employee Development Units of the Employee Services Agency; and the communication of changes, especially personnel redeployments and elimination of positions to labor organizations and employees of the Tax Collector. Each component is discussed, including the progress made by the Tax Collector to date and the work that remains to ensure a transition plan is in place.

Migration of Skill Sets

The Tax Collector has demonstrated strengths that it can use to train staff in the use of TCAS. The Office has a well-equipped training room that includes terminals. Management Audit Division staff attended a refresher BancTec training during the fieldwork phase of the audit, in which we observed the staff to be receptive to the training and able to quickly receive new information to be used in their work. Tax Collector staff have been able to develop skills necessary to use the BancTec check scanning system, and Tax Collector System staff report the entire staff of the Tax Collector is very adaptable to new systems and have consistently proven their ability to learn and apply new skills.

A draft Project Specifications document included on the TCAS internal website describes the mitigation of inadequate user training risk associated with the project as follows:

> User training is a mandated part of the project. It may be accomplished by either the development vendor supplying trainers for Finance Agency staff and others requiring training, or by the development vendor's staff educating training staff supplied by the Finance Agency, or both. In either case, the level and type of training mandated would be clearly documented by the County, for each user group that requires training.
>
> The training will be based on the user documentation produced by the development vendor. Appropriate training courses will be developed and taught for each user group.
>
> The training methodology and effectiveness, measured as the ability of the user to perform all designated functions for their user group after training, will be assessed and validated by a team of users prior to acceptance by the County. Acceptance by the County is a requirement for payment.

The document also includes a plan for end user training.[2] This section generally describes that the training plan will be developed later in the project and lists the minimum components to be included in the training to be provided. These components are also general, and do not include external training that may be necessary or how staff can migrate their current skill set to that envisioned to be created for the new system.

The Finance Agency has not indicated that any layoffs will occur as a result of TCAS. Attrition is expected to provide a basis for the nine positions to be eliminated. However, agreements between the County and Labor Organizations provide information related to how the Tax Collector can leverage existing programs to approach the reorganization and additional training of affected staff and positions. The County of Santa Clara and its representative labor organizations have established training resources for employees when layoffs become necessary. Article Five of the Local 715 MOU includes a provision that: "In determining placement offers, the Union and the County, on a case by case basis, may by mutual agreement include as part of the placement offer: basic skill competency training and/or literacy training and other methods of filing vacant positions..."

The 2006 contract extension with Local 715 includes $3 million in funding from deferred raises to expand the Employee Assistance Program, expand the 20/20 program to allow employees to work half time and attend school, establish "other training/retraining programs such as creating trainee positions to help workers meet the minimum qualifications for transfer," and improve tuition reimbursement procedures and other training opportunities. More recent agreements include an ISD project to assist staff in the move into more secure positions as the overall need for ISD services decreases in the manner described in this report. Also, staff in the lowest paid positions in the County will be allowed to combine on-the-job training and education to become qualified for promotional opportunities. The expected personnel changes in the Tax Collector's Office, Controller-Treasurer's Office and ISD are such that the resources funded by the County to train workers for new positions should be accessed now in preparation of the new system being implemented. For example, staff may require training to become more familiar with the computer environment of TCAS and the new analytical and quantitative procedures that are expected to be possible with TCAS. Realizing TCAS savings will require some staff to change the role they play in the Office.

Communication with Labor Relations

The Employee Services Agency has an important part to play in the successful transition planning and implementation of the Tax Collector's Office given the TCAS proposal. The necessary budget reductions, early retirements and elimination of vacant and filled positions over the past few years have prompted Labor Relations to create a layoff team. This team assists departments with the successful elimination of positions, processing of inplacements and other methods to mitigate actual layoffs whenever possible. The Labor Relations and the Human Resources Units of the Employee Services

[2] TCAS Project Specifications, page 99.

Agency are the appropriate centralized unit for Departments to work with when changes in job classifications, job skills and the elimination of positions are expected.

Management Audit Division staff confirmed with the Employee Services Agency staff that the Tax Collector had not discussed with them the proposed position eliminations or the reclassifying of positions from various units of the Tax Collector to the Unsecured Collections Unit. Such information is important for ESA to be made aware of as soon as possible, especially when this information had already been provided to ITEC, and as such had become a public document.

Communication with Employees and Labor Organizations

Management Audit Division staff observed the day to day operations of the Tax Collector's Office during peak season and other times throughout the audit assignment. Our observations lead us to conclude that staff morale is high in the Office of the Tax Collector, and that the management staff supports an overall sense of comraderie and a desire to provide excellent customer service while collecting property taxes. As an example, when management auditors conducted the check inventory as described in Section 1 of the report, we had the opportunity to listen to a Tax Information Specialist receive numerous tax information inquiries. The staff person was consistently polite, professional and patient with taxpayers calling the office. Staff were always very friendly to customers and one another in the office during observations and field work. During peak season, some Tax Collector staff work on the Saturday before the tax payment deadline to ensure received payments are processed and deposited on the following Monday. Labor Relations staff confirmed our observations that the relationship between Tax Collector management and individual employees as well as the represented labor organizations are generally positive.

The previously mentioned TCAS website did not have the March 11, 2005 ITEC report available as a link at the time of the audit; Tax Collector staff report that it was subsequently posted on the site and that its omission was an oversight. The report includes the projected elimination of at least nine and as many as 18 positions. Management Audit Division staff met with managers of the Tax Collector's Office as well as randomly selected line staff to determine the level of information sharing that had occurred regarding the breadth of the changes with TCAS and the related staffing reductions. Management were generally aware of the types of changes that would result from the implementation, but did not report having been given specific documentation or having had a transition plan presented to them by the Tax Collector or the TCAS team at the time of the audit. A sample of managers and line staff were asked the questions to determine the degree to which they had been told of the types of changes in business process and staffing to occur when TCAS is implemented. Generally staff responded that the TCAS team and management had made significant effort to communicate the scope of TCAS and to make the TCAS documentation available to all staff via the TCAS website. Staff reported that the TCAS team solicits feedback and suggestions about the design of the new system, and that these suggestions are integrated into the TCAS documentation.

However, staff indicated that they had not been provided specific information about the expected personnel changes, changes in required skills, or the projected number of positions that would be eliminated. Additionally, staff did not confirm knowledge of the basic conclusion that nine additional unsecured collection staff would increase the amount of collections. Staff had varied responses when asked which unit of the Tax Collector they would recommend receive "saved" hours. Some staff voiced skepticism that the latest effort to replace TIS would be successful and voiced concern about the scope of the project given smaller improvements that could more easily be made.

Timing of Staff and Labor Organization Communication of Position Elimination

During the past few years when the elimination of positions has been necessary due to budgetary constraints, the Board has purposefully initiated the budget process early in the year and provided possible position deletions in the documents forwarded to the policy committees and the Board of Supervisors. The Tax Collector, the Systems Manager and the Director of Finance made a decision that informing labor organizations of the expected personnel changes, both in terms of redeployment and elimination, should not take place until the specific positions and related labor organizations were known. We believe that some notification to employees and labor organizations should be taking place currently, because the Finance Agency has already provided a public document to ITEC that states nine positions will be eliminated through attrition, and that significant ISD reimbursement will no longer take place. The public hearing of the ITEC proposals by the Finance and Government Operations Committee and the full Board of Supervisors that will take place will result in speculation on the part of employees and labor organizations. The Finance Agency should collaborate with the Employee Services Agency to provide employees and labor organizations with a process and a plan by which personnel changes will be determined and communicated during the TCAS implementation process. The decision to include information about position elimination should have been accompanied by a process by which the Finance Agency began discussing the reengineering and reorganization of the Tax Collector with staff and labor organizations.

Affects of Inadequate Transition Planning

Absent clear and regular communication of the expected personnel changes, combined with a formal transition and training plan for current staff to acquire new skills, the anxiety among Tax Collector staff will increase as the TCAS project progresses. This anxiety, plus the additional workload as described above, will presumably threaten the positive labor relations in the office and the excellent employee morale we observed during the audit. Staff of the Tax Collector will be less likely to show the level of patience and customer service presently in place, and be less likely to actively engage in the process of installing, testing and refining the TCAS system. Ultimately, the County's collection rate may suffer, resulting in reduced available resources. Transition planning, therefore, is vital not only to ensuring that the mission continues to be achieved under the new system, but also that the efficiency and effectiveness of the department in fulfilling its mission be enhanced.

The Specifications document of the project indicates that added workload during the transition stage may be a problem for existing users, and that there "may be concern among users about changes to their job once manual processes are eliminated, and the workflow is made more efficient." The document concludes that addressing these concerns during the planning stage of the project is unrealistic. This may be true, but avoiding the issue may do more to fuel suspicion than some kind of communication plan. Such a plan could include reminding staff that eliminated positions will be achieved through attrition rather than layoffs, reminding them that there will be opportunities for staff to transfer to other positions, and describing the County resources and programs in place to assist employees with the anxiety they may experience during the transition period.

Two California counties recently began using a new, mandated information system for the calculation and provision of food stamps and other benefits. According to a March 31, 2005 article in the *Sacramento Bee*, staff reported having experienced significant anxiety, heart attacks and panic attacks as well as needing to take sick leave during the training and transition. Labor organization representatives assert that the training for staff on the new system has been inadequate, and that new systems such as this in the private sector are more likely to succeed because staff receive more extensive training. The phased implementation of TCAS will mitigate the dramatic problems being experienced in Placer and Sacramento counties with the start-up of CALWIN, but, nonetheless, the example illustrates the perceived importance of training to employees and the difficulties the Tax Collector may face as the new system is implemented.

The Finance Agency will be accountable to produce the projected savings claimed in its proposal for funding of TCAS, as recommended in Section 8 of this report. However, a lack of employee participation or buy-in to the project will make the timely and successful implementation of the TCAS system and related business processes more difficult, and the savings may be delayed or not realized. The opportunity to create and implement a state of the art system and fundamentally improve the nature of tax collection and apportionment in Santa Clara may be compromised. Clear and regular communication with the Employee Services Agency, affected labor organizations and employees of the Tax Collector, and the development of a comprehensive training and transition plan will mitigate the potential for these problems, and maximize the opportunity for TCAS to succeed.

CONCLUSION

Since FY 2000-01, the Tax Collector's Office has been actively planning for and designing a new system to replace its existing tax collection management computer system. The proposed new Tax Collection and Apportionment System (TCAS) will require the reengineering of business processes in the Tax Collector's Office, and is projected to result in the elimination or redeployment of 18 positions in the Finance Agency. Personnel responsible for implementing, utilizing and maintaining the new system will need to continue the collection of taxes, test and learn the new processes and participate in the implementation as positions are eliminated.

Implementation of the new system will require existing Tax Collector personnel to be trained to understand, use and maintain the new system to successfully migrate into this new structure and process. However, a comprehensive training plan has not been developed. Neither the staff requirements that the new system will demand nor the projected personnel changes have been communicated to staff, affected labor organizations or the Employee Services Agency.

As a result, projected cost savings and operating efficiencies of the new system may not be realized as planned, and implementation of TCAS may be delayed until staff are adequately trained. In addition, the current positive labor relations and high morale within the Tax Collector's Office may be compromised if the anticipated changes are not fully disclosed with the assistance of the Employee Services Agency early in the process. A decrease in staff confidence and trust could result in losses in productivity and tax collection during and after implementation of the new system.

By developing a comprehensive training and transition program, with the assistance of the Employee Services Agency, that provides existing staff with the knowledge and skills necessary for the successful operation of the new system, implementation delays can be avoided and high tax collection rates can continue without disruption.

RECOMMENDATIONS

The Tax Collector should:

9.1 Develop a training plan that defines functional staffing strength and personnel skill requirements that will allow current staff to obtain the skills necessary to fill new or modified roles. (Priority 2)

9.2 Collaborate with the Employee Resources Agency to communicate potential staffing changes to affected labor organizations and employees of the Tax Collector's Office and other departments in the Finance Agency as the project proceeds. (Priority 3)

COSTS AND BENEFITS

There are budgeted expenditures of the proposed Tax Collection and Apportionment System (TCAS). These costs include ongoing funding of the TCAS team within the Office of the Tax Collector. The members of this team, as well as the management of the Tax Collector's Office and the Finance Agency are sufficient to implement the transition plan, as outlined in this section of the report.

The savings and benefits related to the implementation of the recommendations include continued tax revenue to the County and the eventual elimination of nine positions plus increased collections, as presented in the Tax Collector's report back to ITEC on March 11, 2005. The benefits also include the continued high collection rate of property taxes in the County and the preservation of high morale and productivity in the Office of the Tax Collector. The recommendations are intended to maximize the opportunity for the

TCAS system to be implemented successfully, providing the County with the highest possible return on investment.

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Tax Collector Survey Results

	Do you use the Teeter method of apportioning property tax revenues? If yes, identify which rolls are apportioned using the Teeter method.	When did the most recent review of fees take place to ensure recovery of all direct and indirect costs allowed under the law?	Does the County not enroll real property with an assessed value under $2,000 (after the homeowner's exemption, when applicable) or some other threshold?
Fresno	Yes.	The department tries to review three or four fees each year. However, budget cuts and staff shortages have hindered that process in some years.	Yes.
Los Angeles	No.	There has not been a comprehensive review of all fees for at least five years. Fees are reviewed by the Fiscal Section on an as needed basis at the request of divisions or due to a change in code. They increased the returned check fee three years ago, and the fees associated with the sale of tax-defaulted property within the last year. Both of these increases resulted from a formal review by their cost accountants.	No, the Assessor has set certain assessed value amounts that the secured system translates into instructions to prevent tax bills from being generated.
Orange	Yes, current and prior year secured.	November 2004.	Yes, the threshold is under $1,700.
Sacramento	Yes, secured and secured supplemental.	Complete review planned for FY 2005-06.	No, all real property is enrolled, but bills are not issued for less than $10.
San Joaquin	Yes, secured, special assessments, secured supplemental and redemption.	A partial review of fees was conducted as of July 1, 2004.	Yes, the Assessor's Office does not enroll secured or unsecured property under $2,000.
San Mateo	Yes, secured and redemption.	April 20, 2004.	No, the County enrolls all real property regardless of value.
Santa Clara	Yes, secured and secured supplemental.	Fees were reviewed in 2003 and included all direct and some indirect costs. They will be reviewing all fees again in the near future for inclusion of all indirect and direct charges.	No.

Tax Collector Survey Results

	Do you issue courtesy bills or notices or another secured bill subsequent to initial enrollment when there is a change of address or property ownership? If yes, please explain when they are issued during the fiscal year.	Is a project currently being funded to replace or significantly upgrade the information technology system used to collect and apportion taxes in your County? If yes, what is the total budgeted cost of the project and the estimated completion date?	Do you accept partial payments for secured taxes? If yes, please explain why you have chosen to accept partial payments. If no, please explain the basis for not accepting partial payments.
Fresno	No.	No, they are starting to look at a replacement project but do not have enough information to project a budget.	No, due to 1) system limitations, 2) it would take increased staffing to process more than two payments a year on secured tax bills, and the taxpayers would be using them to impound their taxes, and 3) if partial payments were accepted, there would be additional costs to send updated bills with the current amount due.
Los Angeles	No, but they do send a supplemental tax bill when there is a change of ownership. Supplemental bills are issued throughout the year and are due upon receipt.	No.	Yes, on the secured and redemption tax rolls. Payments are applied as received and penalties are calculated on the remaining balance. All payments are applied to fees, penalties and taxes in that order. The decision to accept partial payments was made in 1997. All payments are applied and deposited within 24 hours. No payments are returned.
Orange	Yes, they are issued every February and November.	Yes, the project is costing $10 to $12 million and is scheduled for completion in July 2008.	No, the system does not allow partial payments. If partial payments come in, they are processed and held in a holding account and a short letter is sent to the owner giving time allowed to submit balance. Funds are refunded after a certain amount of time.
Sacramento	Yes, between November and the end of March, they mail facsimile annual tax bills to new owners.	No, but they need to address funding and replacement in the near future.	No, they do not accept partial payments.
San Joaquin	No, upon request or if the bill or delinquent notice is returned, they mail the bill or notice to the current address.	No, their tax project was completed in 2004 for $3.2 million. It included an outside project manager, the Megabyte Property Tax System with some customizations for the Auditor-Controller, 13 new computers and five printers, two new remittance processors, new imaging software, and three years of pre-paid annual maintenance.	No, they do not accept partial payments. They do not have the Board of Supervisors' approval per Revenue and Taxation Code Sections 2636 and 2708. They do not intend to request such approval.
San Mateo	Yes, the Assessor sends weekly updates, and bills are mailed accordingly.	The Tax Collector has developed a successful, scaleable system in-house. This system was recently offered, because of its scalability, at no charge to Santa Clara County. However, the Director of Technology for the Finance Department opted to go with a system yet to be developed.	No, the basis for not accepting partial payments on current secured taxes is the backroom work involved, cost of postage and all paper costs, including but not limited to bill stock, envelopes, and inserts.
Santa Clara	Yes, each year they review the schedule. In FY 2004-05, they scheduled four of these jobs on October 14, November 10, February 10 and March 17.	Yes, the Tax Collection and Apportionment System will replace all the functionality of all their existing legacy systems. They estimate that the project will cost over $10 million and be completely operational by the end of FY 2007-08. It also will have all "bug fixes" and needed functionality improvements completed during FY 2008-09. To date, around $2 million has been spent on the system design phases.	They accept partial payments in special situations only. Bankruptcy is the main occurrence.

Tax Collector Survey Results

	If you accept partial payments for secured taxes, are they applied and apportioned or held in a trust fund? Please also explain how the remaining amount due is collected (e.g., additional bill or notice).	Do you deposit checks for tax payments that cannot be immediately processed, such as when payments arrive without a stub or with the wrong stub or when an overpayment or duplicate payment arrives?	Do you hold checks for tax payments that cannot be immediately processed, such as when payments arrive without a stub or with the wrong stub or when an overpayment or duplicate payment arrives?
Fresno	Not applicable.	Yes, overpayments are immediately processed as are duplicate payments if one check pays several parcels.	Yes, they hold checks until replacement stubs are created (one day). If they create a stub for a check on one parcel, the stub tells them that the parcel has already been paid so they pull the check and stub prior to sending it to the remittance processing system and just return the check as a duplicate to the taxpayer.
Los Angeles	All payments are applied and apportioned. Los Angeles is not a Teeter county. For the secured roll, notices are sent to the assessees of all parcels after each installment if there is a delinquent amount of $10 or more.	Yes, all payments are processed within 24 hours of receipt. Payments that are received without a stub are applied to the parcel through a "screen scrape" process in the remittance processing system that creates an electronic or virtual stub. Overpayments and duplicate payments are applied and refunded through a payment exception processing system. Payments received for which no parcel is identified are deposited into a trust system that generates a letter and a copy of the payment, which is sent to the taxpayer asking for instructions on how to apply or refund the payment.	No.
Orange	Not applicable.	Yes, checks for tax payments are immediately processed for deposit. Checks without stubs have stubs made for them. The overpayment or duplicate payments are processed but refunded to the taxpayer.	No.
Sacramento	Not applicable.	No.	Yes, if they can determine what is being paid, they print a stub and process the payment. However, if they cannot identify what is being paid, check is returned with a notice. For payments of multiple tax bills, generally if over 50 percent of payment is an overpayment or duplicate payment, they return. Otherwise, the payments are processed and overpayment or duplicate payments are refunded. Incorrect payments are returned with a notice.
San Joaquin	Not applicable.	No.	Yes, they return checks that are duplicates, short or late. They batch payments in date order. If a payment requires a stub, they place it in a "need a stub" basket to print and batch.
San Mateo	Not applicable.	Yes, payments arriving without stubs or the wrong stub are not an issue. Every staff member can print a payment stub anywhere in the office immediately upon receipt. Overpayments are not an issue as a payment stub plus a refund stub expedite processing. Duplicate payments are handled at the backend.	No.
Santa Clara	They are held in their trust fund.	No.	Yes, they hold most checks that cannot be immediately processed until they can produce stubs. For large amounts, they use their bill printing printers to do them same day for same day processing. Others, they order bills on the same day and receive the replacement bills on the next business day for processing. Duplicate payments are rejected. Under and over payments are rejected. For overpayments, Accounting tries to contact the taxpayer to be able to resubmit them for the correct amount. For duplicate payments, if there is an outstanding unpaid installment, Accounting attempts to contact the taxpayer to see if the duplicate payment can be applied to it.

Tax Collector Survey Results

	In addition to the usual methods of payment (e.g., mail a check or deliver a check), with which of the following methods are taxpayers able to pay secured taxes? Credit card at the counter, credit card over the Internet, credit card over the phone, credit card payment at kiosk in a county building or other location, e-check or other.	For each payment method indicated, what is the transaction fee that the taxpayer incurs when paying secured taxes?	In addition to the usual methods of payment (e.g., mail a check or deliver a check), with which of the following methods are taxpayers able to pay unsecured taxes? Credit card at the counter, credit card over the Internet, credit card over the phone, credit card payment at kiosk in a county building or other location, e-check or other.
Fresno	Credit card over the Internet or phone.	Credit card fee is 2.5 percent of the payment amount.	None.
Los Angeles	Credit card over the phone and electronic fund transfer.	Credit card fee is 2.1 percent of payment amount plus a $3 transaction fee.	Currently, they do not have the ability to accept credit card or e-check payments for unsecured taxes.
Orange	Credit card at the counter (Discover only), over the Internet and over the phone; and e-check.	Discover fee structure is dependent on the total amount of the transaction, regardless of the number of parcels: $.01-$500.0 results in $6 fee; $500.01-$1000 results in $12 fee; $1000.01-$2000.00 results in $25fee; $2000.01-$3000.00 results in $40 fee; $3000.01 and up results in $50 fee. Other credit card fees are 2.5 percent of the payment amount, and paying by e-check is free.	Credit card at the counter (Discover only), over the Internet and over the phone; and e-check.
Sacramento	Credit card over the Internet and phone; and e-check.	Credit card fee is 2.5 percent of the payment amount; e-check fee is $3 for payments less than $10,000 or $15 for payments equal to or more than $10,000.	They are the same as secured for unsecured supplementals, escapes and corrected tax bills but not unsecured personal property.
San Joaquin	They hope to have Internet and phone payments before the 2nd installment in April 2005.	The fees will be $3 for e-checks and 2.5 percent of the payment amount for credit and debit cards.	When they are set up for current secured, the same payment options will be apply for current unsecured. They will not accept defaulted or prior year payments over the Internet or phone.
San Mateo	Credit card over the Internet and phone; e-check; specially set-up terminals in the Tax Collector lobby; and a direct-link phone in the Treasurer lobby.	Credit card and phone fee is 2.5 percent of payment amount, and the e-check fee of $5 was eliminated January 1, 2005.	Credit card over the Internet, e-check and specially set-up terminals in the Tax Collector lobby.
Santa Clara	Credit card at the counter (via kiosk), over the Internet and at a kiosk in the county building; and e-check.	Credit card fee is 2.5 percent of the payment amount, and e-check fee is $15.	Credit card at the counter (via kiosk), over the Internet, at a kiosk in the county building, and e-check.

Tax Collector Survey Results

	For each payment method indicated, what is the transaction fee that the taxpayer incurs when paying unsecured taxes?	What was the total number of tax payments paid by credit card in FY 2003-04?	What was the total dollar amount of taxes paid by credit card in FY 2003-04?	What was the total number of tax payments paid by all methods in FY 2003-04?	What was the total dollar amount of taxes paid by all methods in FY 2003-04?
Fresno	None.	No statistics available.	No statistics available.	No statistics available.	$518,675,253
Los Angeles	Not applicable.	46,437	$87,378,284	3,936,880	$7,429,535,884
Orange	Discover fee structure is dependent on the total amount of the transaction, regardless of the number of parcels: $.01-$500.0 results in $6 fee; $500.01-$1000 results in $12 fee; $1000.01-$2000.00 results in $25fee; $2000.01-$3000.00 results in $40 fee; $3000.01 and up results in $50 fee. Other credit card fees are 2.5 percent of the payment amount, and paying by e-check is free.	38,045	$72,291,960	1,530,563	$2,965,659,698
Sacramento	They are the same as secured for unsecured supplementals, escapes and corrected tax bills but not unsecured personal property.	4,793	$4,696,097	1,018,925	$1,154,327,420
San Joaquin	The fees will be $3 for e-checks and 2.5 percent of the payment amount for credit and debit cards.	0	$0	250,000	$650,000,000
San Mateo	Credit card fee is 2.5 percent of the payment amount, and the e-check fee of $5 was eliminated January 1, 2005.	4,859	$11,738,818	449,799	$1,242,951,496
Santa Clara	Credit card fee is 2.5 percent of the payment amount, and e-check fee is $15.	7,623	$16,368,756	950,000	$2,809,250,925

Tax Collector Survey Results

	Does the County have a contract with a single credit card intermediary, or does the County have individual contracts with individual credit card companies?	Is the Tax Collector elected or appointed?	Who makes the ultimate decision whether to approve or deny penalty appeals?
Fresno	They are currently using Official Payments Corporation, a third party vendor. They are in the process of adding a kiosk and accepting e-check in addition to credit card payments for all types of bills. They have contracted directly with Sonant, and the new system should be installed by June 2005.	Elected.	The Tax Collection Manager makes the decisions based on their guidelines to approve or deny a penalty waiver request. If the taxpayer does not agree, the elected official (Auditor-Controller/Treasurer-Tax Collector) reviews and makes the final decision.
Los Angeles	The County has four individual agreement with AXP, Discover, Visa and MasterCard.	Appointed.	Tax Collector.
Orange	They contract with Wells Fargo Bank for all credit card companies.	Elected.	Tax Collector. However, the vast majority of penalty waiver decisions are made by staff in accordance with their penalty waiver procedure.
Sacramento	They contract with Official Payments Corporation (OPC). They are working with the three other departments that have separate agreements with OPC to bring all services under one agreement.	Appointed.	Tax Collector (Director of Finance).
San Joaquin	They have an intermediary, EPOS.	Elected.	The claim for refund form has approval/denial for the Treasurer-Tax Collector, Assessor and Auditor Controller.
San Mateo	They contract with a single third party vendor, Official Payments Corporation.	Elected.	Treasurer-Tax Collector.
Santa Clara	They contract with a single credit card intermediary or clearinghouse.	Appointed.	Tax Collector.

Tax Collector Survey Results

	What is the average time, in days, required to consider a penalty appeal and make a decision to approve or deny the appeal?	Are penalty checks held, rather than deposited, while penalty appeals are considered?	Are tax payments held, rather than deposited, while penalty appeals are considered?
Fresno	If the elected official gets involved, her decision is made within three to four days (depending on her availability).	Yes, for penalty waiver requests.	Yes, if not already paid.
Los Angeles	30 days	No, penalty checks are not held during the appeal.	No.
Orange	30 days	No.	No, taxes are required to be paid before appeal can be filed. They will not look at appeals without property taxes.
Sacramento	Varies depending on time period and request/documentation. When they have the necessary documentation, one to 30 days.	Yes, penalty checks are held until letter communicating decision made to approve or deny is mailed.	Yes, payments are generally held while appeal is considered.
San Joaquin	Two to three months	No, penalty checks are posted and deposited.	No, tax payments are posted and deposited.
San Mateo	10 to 15 days	Yes.	Yes.
Santa Clara	Two weeks	Yes, penalty checks are normally held.	Yes.

Tax Collector Survey Results

	For denied penalty appeals, what recourse do taxpayers have other than, or prior to, filing a claim or lawsuit against the County?	Does your County have a penalty appeal policy approved by the Board of Supervisors?	Does the County have an internal penalty appeal procedure?
Fresno	None, the Board of Supervisors has given authority to the Auditor-Controller/Treasurer-Tax Collector.	No.	No, only guideline procedures for waiving penalties.
Los Angeles	No other recourse is available prior to filing a lawsuit.	For penalties related to the late filing of business statements, the taxpayer may file a request for a hearing before the Board of Supervisors' Assessment Appeals Board.	No, other than running the appeal through the chain of command that ultimately ends with the Tax Collector.
Orange	They have no other process.	Yes, by Board resolution policies have been delegated to the Tax Collector.	Yes.
Sacramento	File a claim for refund with the Board.	No.	Yes, they have draft procedures.
San Joaquin	Denied penalty appeals can be taken to Superior Court.	Yes.	Yes, one day late postmarks may be allowed an affidavit that the payment was mailed timely. Also, affidavits may be filed if the new owner purchased the property tax bills were mailed.
San Mateo	The penalty appeal coordinator issues the denial. If the taxpayer needs to revisit the appeal, the Assistant Tax Collector reviews the file. If the denial is upheld at that point and the taxpayer wants a further review, it is ultimately up to the Treasurer-Tax Collector to make the final decision.	No.	Yes.
Santa Clara	Taxpayers are advised to follow the claim for refund guidelines of Revenue and Taxation Code Section 5140. This claim is filed with the Clerk of the Board and reviewed by County Counsel. This claim must be filed prior to filing a lawsuit.	No, they use the Revenue and Taxation Code.	Yes.

County of Santa Clara

Tax Collector

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June 10, 2005

TO: Supervisor Pete McHugh, Chairperson
Supervisor James T. Beall, Vice Chairperson
Finance and Government Operations Committee

Roger Mialocq, Management Audit Manager

FROM: Martha L. Williams, Tax Collector Martha L. Williams

RE: Response to Management Audit by Board of Supervisors Management Audit Division

The Tax Collector's Office would like to thank the Management Audit Team for the opportunity to comment on the preliminary *Management Audit of the Tax Collector* completed by the Board of Supervisors' Management Audit Division and received by the Department on May 18, 2005. We appreciate the audit team's professionalism and ability to work cooperatively with our staff to the successful completion of the Management Audit.

The purpose of the Management Audit was to examine the operations, management practices and finances of the Office of the Tax Collector, and to identify opportunities to increase the Department's efficiency, effectiveness and economy.

The Introduction of the Management Audit identifies 3 issues as "Topics Requiring Additional Review". The Department's response addresses these three issues first. Our responses to the 9 Management Audit findings and associated Recommendations follow. Each section includes general comments on the findings and specific responses to each Recommendation. A total of 45 Audit Recommendations were detailed. 29 of the Recommendations were addressed to the Tax Collector with the remaining 16 Recommendations addressed to various other departments and to the Board of Supervisors. Of the 29 Recommendations addressed to the Tax Collector, the Department agrees with 23 of these Recommendations; partially agrees to 2; and disagrees with 4.
The majority of the areas identified in the Management Audit as problems are due to the limitations of the existing 38-year-old legacy tax system. A large number of these areas have previously been identified and will be addressed in our new Tax Collection and Apportionment System (TCAS) project. The remaining deficiencies can be remedied with

incremental implementation of system enhancements to the current tax system and the updating of our internal procedures and controls.

TAX COLLECTOR COMMENTS ON "TOPICS REQUIRING ADDITIONAL REVIEW"

TAXPAYER INFORMATION CORRECTION BILLS

The Department issues this type of bill when a property changes ownership, the mailing address has changed, or some other type of change has occurred in the property owner's name. The billing is a duplicate of the annual secured tax bill and reflects the current values and property tax amounts enrolled. The same format as the annual tax bill is used and payment stubs are also provided. A paid indicator is displayed when an installment has previously been paid. The Department agrees that the current format of this type of bill can be confusing to the taxpayer, especially if the bill has already been paid. To this end, the Department has included in our TCAS requirements a design that will allow for a much more flexible type of notice. Bills will be generated in the cases where payment still needs to be made and notices produced, which would include specific information regarding ownership or address changes.

The Department strongly believes an improved version of this type of bill/notice is an essential component of a successful property tax collection program. They contain important and necessary information for the property owner regarding changes to their account and also provide crucial information necessary for the understanding of a new owner's supplemental tax bill. Furthermore, the value of this type of notice should not be limited to the cost of production or the number of phone calls generated. For a large majority of property owners, this may be the only notice of the regular tax bill they receive. It is true that the subject of property taxes is normally covered in an escrow transaction; however, the taxpayer does not receive a copy of the current property tax bill in escrow. This could pose a problem for the taxpayer should both installments not be paid. The Tax Collector's Office has always maintained that property owners should be noticed of their property tax obligation and that, if at all possible, the first notice should not be the delinquent notice.

The Department agrees to consult with the Assessor as to the possibility of suppressing the generation of code 42 bills in situations where the property has not changed ownership, but the owner's name has changed.

CASH PAYMENTS COLLECTED IN THE FIELD

The frequency of cash payments in the field is rare. The Department recognizes the risk of accepting this type of payment in the field, however we would not want to deny a taxpayer this payment method or run the risk of losing the collection entirely. Instead, the Department agrees to develop and implement more stringent controls regarding the receipting process.

Currently, the collector issues a hand written receipt in the field when cash is collected. Upon their return to the office, the cash is submitted to the Treasury cashier for processing. The Department will now request that the Treasury cashier sign off on the copy of the hand written receipt and direct the Collection Supervisor to ensure that this has occurred prior to the close of business.

LOW VALUE PARCELS

The Department agrees to consider whether to recommend the cancellation of unpaid tax bills on low value parcels prior to the current five year period. This type of consideration could only occur after a complete and thorough analysis was performed as it is possible that this type of change may seriously impact revenues for both the County and the special assessment districts enrolled on the property tax bill such as sewer, fire, library and school districts. This analysis will be included in our TCAS project.

TAX COLLECTOR'S RESPONSES TO FINDINGS

The Tax Collector agrees with the majority of the Recommendations included in the Management Report. Our major disagreement involves the first Recommendation in Section 1. We accept the audit results detailed in the first finding, however, we disagree with the proposed remedy and the Department offers an alternate solution.

SECTION 1: DEPOSITING ALL PAYMENTS RECEIVED

GENERAL COMMENTS

The Department acknowledges the inadequacies detailed in this section and appreciates the efforts of the audit team in identifying several problem areas. We do not agree however, with the proposed remedy.

Our system works on the principle that all payments must be credited to the proper account when deposited. We are aware of only one other county that does not follow this practice.

In May 2002, the former Tax Collector attempted to implement a process whereby all partial payments submitted for payment in Redemption (prior year taxes) were immediately deposited when application to the account was not possible. This procedure increased the workload for not only the payment processing staff and the accounting unit, but confused and frustrated the taxpayers. Once the checks were cashed, taxpayers believed their taxes were paid and did not understand the subsequent notices and often times did not respond. Many times, a third party submitted the checks. Again, once the check was cashed, the third party believed all was "OK". And, although notices were sent, the third parties rarely notified the property owners of the situation. This process was not successful and the procedure was terminated after a few months. It took many months and in some cases years to clear up the problems that resulted from the implementation of this process.

We do not believe it is in the best interest of the County or taxpayers to immediately deposit all problem payments in a "suspense account" and then perform the necessary research and application. This type of change in our payment processing procedures would take some of the critical pressure off of staff to expedite the research to assure proper credit and increase the time it takes to apply payments.

In September 2002, the Tax Collector met with the Controller-Treasurer and described our issues relating to Section IV of the Controller-Treasurer's Cash Handling Policy and Procedures. The specifics were later memorialized in an exemption request submitted to the Controller-Treasurer. In conjunction with the Custody Audit in process at that time, the provisions of the exemption request were reviewed and approved by Internal Audit. Both the Controller-Treasurer and Internal Audit agreed that adherence to the provisions of the exemption will serve as compensating control.

The Tax Collector deposits and applies the majority of tax payments within two days of receipt. There are a very small number of payments that cannot be applied immediately. They may need a bill stub for processing purposes; possibly be a duplicate payment; or may not include the necessary account number. In FY 2004, the Department processed and deposited 700,065 checks. The number of checks noted in the Management Audit as being "held" was 2,691. This translates to 0.38% - truly a small fraction of the total checks processed.

We do not agree with the cost methodology in the auditors' report. The audit team selected a busier than average period during tax season and then applied these results to the whole fiscal year. We can show that there are over six months of the tax year that are slower that the 24-hour period selected. As a consequence, we believe that the interest earnings are overstated and the amount to issue a refund is understated. However, this point is incidental to our major operational concerns as stated above.

Finally, the majority of Tax Collectors, including our office, do not believe that it is legal to knowingly cash a check without giving credit to the taxpayer. This issue would need to be addressed by County Counsel prior to the implementation of any procedural changes.

The Department would like to thank the audit team for their efforts in this finding. Their results brought to light performance issues that will be resolved with additional training and the updating of procedures and controls.

ALTERNATE SOLUTION

The Department is confident that we can meet the requirements of our exemption and concurrently reduce the number of checks held beyond 2 days by implementing the following:

- As part of our existing payment processing system, programming for the printing of payment stubs and bills within the office is nearly completed. This capability will allow most payments to be applied and deposited the same day as received. We expect this enhancement to be implemented prior to the mailing of the next secured property tax bill. This improvement will address the majority of the payment types identified as "held" by the audit team.
- The Department will update procedures and controls in order to ensure that problem payments are consistently processed in a timely manner and according to the guidelines provided in our cash handling exemption. This improvement addresses most of the remaining payment types identified as "held" by the audit team.

- In an effort to minimize the risk of checks being misplaced, lost or stolen, the Department will seek the advice of Internal Audit in determining possible improved methods of securing "held" checks in the office.
- In the design of TCAS we will include requirements for online tools to more quickly research account numbers and expedite processing.

RECOMMENDATIONS

The Tax Collector should:

1.1 Deposit all property tax payments upon receipt, as outlined in Section IV of the Controller- Treasurer's Cash Handling Policy and Procedures. (Priority 1)

Disagree: *The Department acknowledges that improvements are needed in this area; however, we offer an alternate solution as outlined in the General Comments. We are confident that with the system enhancements described and the updating of our internal procedures and controls, the Department will be in compliance with our cash handling exemption.*

1.2 Implement a method of printing duplicate stubs for property tax payments in the office. (Priority 1)

Agree: *This process will be implemented prior to the mailing of the FY 2006 bills.*

The Controller — Treasurer should:

1.3 Establish a suspense account for depositing property tax payments that cannot be processed immediately. (Priority 1)

This Recommendation was not addressed to the Tax Collector's Office.

The Board of Supervisors should:

1.4 Consider whether to accept partial payments for secured property taxes as allowed by Revenue and Taxation Code Section 2636 and 2708. (Priority 1)

This Recommendation was not addressed to the Tax Collector's Office, however the Tax Collector feels it is crucial to point out several factors that must be considered prior to the consideration of this recommendation. As noted in the Management Report, Los Angeles County was the only county surveyed that accepts partial payments for secured property taxes. Los Angeles County does not employ the Teeter method of apportionment as does Santa Clara County. The possibility of complications to our Teeter obligations and the potential of lost penalty revenue currently paid to the County through our Teeter agreements must be thoroughly researched and analyzed. Additionally, it should be pointed out that the current tax and apportionment system cannot handle the demands of a partial payment system. The successful implementation of a partial payment system can only occur with a new system, which could produce a balance due bill and include proper accounting and apportionment procedures. The TCAS project will include an analysis of all these factors.

SECTION 2: TAX COLLECTOR TRUST FUNDS

GENERAL COMMENTS

The Tax Collector's Office generally agrees with the direction of the Recommendations made in this section. With the exception of our Delinquent Property Tax Improvement Fund, the detailed amounts included in the auditors' $814,000 estimate of "one-time benefit" to the County General Fund have been scheduled for transfer to the General Fund.

We do not believe there is a need for the Board of Supervisors to appropriate the Delinquent Property Tax Improvement Fund. The current fund balance as well future amounts have been pledged towards the cost of our new TCAS project.

The revenues in the Delinquent Property Tax Improvement Fund have historically been appropriated for specific technology projects. For example, on Feb 4, 2003, the Board of Supervisors appropriated $203,000 from this fund for the *Internet Tax Bill Presentment and Credit Card Payment System*. This example illustrates the benefits of maintaining a reserve fund available for the implementation of essential technology projects.

RECOMMENDATIONS

The Board of Supervisors should:

2.1 Appropriate Delinquent Property Tax Improvement Funds for Tax Collector needs based on each year's budget requirements. (Priority 1)

This Recommendation was not addressed to the Tax Collector's Office.

The Tax Collector should:

2.2 Develop computer capability to identify and escheat monies in the Installment Redemption fund. (Priority 1)

Agree: The details of this recommendation will be included in the new TCAS project.

2.3 Immediately transfer the FY 1999-00 balance in the Tax Collector's Trust Fund to the General Fund, and promptly transfer the FY 2000-01 balance in July 2005. (Priority 1)

Agree: The FY 1999-2000 fund balance will be transferred by the close of FY 2005. The FY 2000-2001 balance will be transferred as soon as the related Information Services Department (ISD) job has been rescheduled and a review of the payments for exception processing is completed. This transfer should be completed by September 30, 2005, if not sooner.

The Controller-Treasurer should:

2.4 Ensure that the appropriate Livestock Head Tax transfers occur timely pursuant to State Law. (Priority 1)

This Recommendation was not addressed to the Tax Collector.

SECTION 3: COUNTY-WIDE FEE POLICIES AND PROCEDURES

GENERAL COMMENTS

The two recommendations in this section were not addressed to the Tax Collector's Office. However, as noted in the Management Report, an audit of the Tax Collector's rates and charges was completed by Internal Audit on February 4, 2005. Internal Audit found that although the Tax Collector's Office is doing the "best job of identifying fees to charge", when compared in a survey to other California counties, internal controls over the computation of the fees and charges could be improved and all possible indirect costs were not included in the calculations. The Department agreed to all Recommendations included in the audit and is in the process of completing the requirements of each finding. The Controller-Treasurer's Office is providing support and assistance in this area.

RECOMMENDATIONS

The Controller-Treasurer should:

3.1 Implement recommendations 6.1, 6.3 and 6.4 of the 2002 Management Audit of the Controller-Treasurer, as shown in Attachment 3.3. (Priority 1)

This recommendation was not addressed to the Tax Collector.

The Board of Supervisors should:

3.2 Approve a County-wide fee schedule on an annual basis, as prepared by the Office of Budget and Analysis beginning in FY 2006-07. (Priority 2)

This recommendation was not addressed to the Tax Collector's Office.

SECTION 4: COLLECTION OF UNSECURED PROPERTY TAXES

GENERAL COMMENTS

The Department agrees with the five Recommendations proposed in this section of the report. The Tax Collector's Office has always taken great pride in our unsecured collection effort. Prior to the dot com crash, Santa Clara County maintained one of the lowest delinquency rates in the State. We concur with the auditor's comments relating to our FY 2003-04 "unpaid taxes" statistics; however, we feel that it is important to also note that in 7 out of the last 10 fiscal years, we have ranked in the **top half** of the same 15 counties detailed in the audit. Additionally, for 8 out of the same 10 fiscal years, our unsecured collection effort reflected a delinquency rate under 3%. Therefore, it is difficult to ascertain if the increased delinquency rate of the last two years corresponds to the inadequacies of our current collection system or is it attributable more to the down turn in local economy. In any case, we have previously recognized the need for a case management system and workflow scheduler in order to aid unsecured collections and have included these requirements in our TCAS project. It is clear that with the system enhancements planned in TCAS and the recommendations made in the Management Audit, the Tax Collector can significantly increase the collection of unsecured property taxes.

RECOMMENDATIONS

The Tax Collector should:

4.1 Implement a case management system, as planned with the Tax Collection and Apportionment System. (Priority1)

Agree

4.2 Establish goals for monitoring the performance and productivity of individual staff and a process to coach collectors who are not meeting their goals. Both the quantity and quality of work should be incorporated into the goals, which could be based on best practices in other departments or counties. (Priority 1)

Agree: The Tax Collection Manager will begin working on this recommendation in FY 2006.

4.3 Assign a reference number to each taxpayer with unsecured property, bill all assessments for the taxpayer under that number, and redistribute the unsecured collection workload numerically by reference number. (Priority 1)

Agree: The Department had previously identified this need and has included this concept in our TCAS requirements.

4.4 Provide staff with electronic access to a skip tracing service and the Department of Motor Vehicles information database to locate taxpayers of delinquent property taxes. (Priority l)

Agree: The Tax Collection Manager is researching the electronic skip tracing services available. We had previously requested the application for on line access to the DMV. This application has been forwarded to our Systems Division for review and implementation.

4.5 Establish a project with the Assessor's Office to determine the cost effectiveness of obtaining Social Security numbers or taxpayer identification numbers from property statements, and compare the project's cost effectiveness with that of a skip tracing service in order to utilize the State Tax Intercept Program. (Priority 2)

Agree: The Department agrees to initiate discussions with the Assessor concerning the possibility of obtaining Social Security or Taxpayer Identification numbers and to determine the associated costs. We will also research the cost and effectiveness of obtaining this information from a skip tracing service.

The Board of Supervisors should urge the State Legislature to:

4.6 Amend the Revenue and Taxation Code to require taxpayers to provide federal employer identification numbers, Social Security numbers or taxpayer

identification numbers, when applicable, on the property statements used to prepare the unsecured roll. (Priority 1)

This Recommendation was not addressed to the Tax Collector.

4.7 **Amend the Revenue and Taxation Code to require that taxes, penalties and interest on secured property that is not recovered at auction be transferred to the unsecured roll and collected from the owner at the time the taxes became delinquent. (Priority 1)**

This Recommendation was not addressed to the Tax Collector.

Section 5: UPDATING TAXPAYER ADDRESSES

GENERAL COMMENTS

The Department agrees with most of the Recommendations of this section. Prior to the Tax Collector's participation in the State Property Tax Administration Program (PTAP), limited time and resources restricted the processing of returned mail. Our participation in this program has allowed for the funding of a dedicated clerical position to work the returned mail and has resulted in over 25 million tax dollars in accelerated collections in FY 2004 alone.

The auditors state that it is "not clear" as to whether the Tax Collector is required by statute to mail tax bills to the address provided by the Assessor. The Department disagrees. We believe the Revenue and Taxation (R & T) Code is clear on this point. The auditors' point to R & T Code Section 2610.5 as possibly allowing the Tax Collector to address tax bills to mailing addresses other than the one provided by the Assessor. This section of the R & T Code was amended in January 1, 2000 to include language allowing the Tax Collector to email the tax bill to a taxpayer should that taxpayer provide an email address to the Tax Office. The bill would retain the mailing address authorized by the taxpayer to the Assessor. The language change was not meant to supplant the Assessor's authority nor grant the Tax Collector additional responsibility in this area. It is the Department's intent to take responsibility relating to address maintenance, and to adhere to the boundaries set by state statute.

Address maintenance is a difficult and time-consuming task. The Tax Collector respects the Assessor's procedures and efforts in this area. We look forward to our continued collaboration with the Assessor's Office in developing further suitable methods of maintaining and updating mailing addresses.

RECOMMENDATIONS

The Tax Collector should:

5.1 **Print (or stamp) a notice on the back of the envelope used for remailing returned bills to inform recipients that they must complete the enclosed change of address form or future bills will be misdirected. (Priority 3)**

Agree: *A stamp meeting these requirements has been ordered and this procedure will be implemented upon its receipt. Additionally, we also have requested our mailing vendor to fold the bill insert in a manner where the address form is visible at first glance.*

5.2 **Provide the returned-mail clerk and others who process returned mail with a low cost Internet based address location service, as discussed in Section 4. (Priority 2)**

Agree: The Department will research services available for this purpose and implement.

5.3 **Provide a link on the Tax Collector's website to the electronic change of address form on the Assessor's website. (Priority 3)**

Agree: The Department's Information Systems Division is currently working on providing this type of link. We expect it to be up and running by June 30, 2005.

5.4 **Batch-process the Assessor's roll through address validation software to correct malformed addresses and provide these corrections to the Assessor. (Priority 2)**

Agree

During the next redesign of bills, the Tax Collector should:

5.5 **Print a change of address form on the bill itself and proceed with plans to upgrade the payment processing system to readily enable forwarding of address changes to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)**

Agree

The Tax Collector should annually:

5.6 **Query the Tax Information System to obtain a list of parcel numbers for which the return-mail clerk has generated a new mailing label and for which a payment has been received. Provide this list, along with the last mailing address, to the Assessor for the purpose of updating the Assessor's roll. (Priority 2)**

Agree: This recommendation will be implemented in FY 2006.

5.7 **The list from recommendation 5.6 above should be compared to the Assessor's annual roll, and the Tax Collector should use the best address available for mailing the annual bill. (Priority 2)**

***Disagree:** Existing statutes require the Tax Collector to mail all bills to the address provided by the Assessor. However, the Department would like to note that for serious types of collections such as a bank levies, sale and seizure or sale at auction, all collection notices are mailed to both the address provided by the Assessor as well as any better address we may have on file.*

The Board of Supervisors should urge the Assessor to:

5.8 **Update the taxpayer's address using the information provided from the Tax Collector from implementation of recommendations 5.2 through 5.6. (Priority 2)**

This Recommendation was not addressed to the Tax Collector.

The Board of Supervisors should urge the State Legislature to:

5.9 Modify applicable sections of the Revenue and Taxation Code to explicitly authorize the Tax Collector to mail bills only to addresses the Tax Collector deems most likely to be correct, in keeping with Recommendations 5.7. (Priority 2)

This Recommendation was not addressed to the Tax Collector.

SECTION 6: CANCELLATION OF LATE PAYMENT PENALTIES

GENERAL COMMENTS

The Department agrees with most of the Recommendations in this section. Although this section is titled "Cancellation of Late Payment Penalties", it primarily addresses the cancellation of penalties as it occurs in the penalty appeal process. Through the penalty appeal process, a taxpayer may request the waiver of delinquent penalties due to specific and compelling reasons. The circumstances in which penalties can be waived are limited and are outlined generally in the R & T Code. The responsibility rests with the Tax Collector in determining if the specific circumstances surrounding the late payment sufficiently meet the intent of the law.

It is an informal process and involves an extremely small number of property tax payments. In FY 2004, the Department processed over 852,894 property tax payments. Out of this amount, approximately 809 or 0.0009% of these taxpayers filed penalty appeals. In the process, the taxpayer is asked to submit two checks; one check for the tax amount and a separate check for the penalty amount. Additionally, they are instructed to include a statement requesting the waiver and supplying the details and reason for the late payment; and attaching any related documentation. Both the tax and penalty check are held pending the outcome of the appeal. Should the appeal be approved, the penalty check is returned to the taxpayer, the penalties cancelled and the tax payment applied. Penalty appeals are normally decided in two weeks.

We agree that a need exists for improvement in this area. In June 2001, budgetary reduction targets forced the deletion of a position in this unit. This position was responsible for the documentation and processing of penalty appeals. It then became necessary for the Department to abbreviate the administrative portion of the penalty appeal process in order to ensure that the service levels of this unit were maintained.

RECOMMENDATIONS

The Tax Collector should:

6.1 Prepare penalty cancellation reports in compliance with Section 4985.1 of the Revenue and Taxation Code. (Priority 1)

Agree: *The Department agrees with this finding. It is possible that an electronic report already exists for this purpose. We will research our reporting and should an existing* *report be located, the Department will consult with the Controller-Treasurer to ensure that the format meets his requirements. Should this type of report not currently exist, the Department agrees to compile the required information in a format prescribed by the Controller-Treasurer.*

6.2 **Fully document all penalty appeal decisions, and delegate the decision making process to lower level staff when possible, with final decisions made by the Tax Collector. (Priority 2)**

Agree: *The Department will implement this recommendation at the time resources can be redirected from the implementation of TCAS.*

6.3 **Systematically document the facts of the case using standardized sources of information, including a brief case history. (Priority 2)**

Agree: *The Department will implement this recommendation at the time resources can be redirected from the implementation of TCAS.*

6.4 **Develop a policy governing penalty cancellations and strengthen procedures for the review of appeals. The procedures should define as specifically as possible the criteria, upon which outcomes will be determined, in compliance with Section 2610.5 of the Revenue and Taxation Code. (Priority 1)**

Agree: *The Department will develop and implement a penalty appeal policy in FY 2006.*

6.5 **Promptly deposit penalty and tax checks consistent with recommendations in Section 1 of this report, and make interest payments as required by Section 5151 of the Revenue and Taxation Code. (Priority 1)**

Disagree: *The Department strongly disagrees with the proposal that the tax and penalty checks be cashed prior to any decision being rendered by the Tax Collector. In most instances, these taxpayers are already extremely upset and possibly angry with County Government. In our professional judgment, we believe that taxpayers would doubt that an objective review of their penalty appeal could be performed once the checks were cashed. Additionally, given the low volume of these transactions, the related property taxes are of no significant impact to revenues.*

6.6 **Ensure that refunds of penalties include refunds of interest earnings when the interest amount is $10 or more in compliance with Section 5151(a) of the Revenue and Taxation Code. (Priority 1)**

Disagree: *The Department does not agree that penalty checks should be deposited prior to the penalty appeal being reviewed. Related details are included in the response to Recommendation 6.5.*

The Finance Director should:

6.7 **Direct the Internal Audit Division to biennially review a sample of penalty appeal cases to ensure consistency of procedures, documentation and decisions. (Priority 3)**

This Recommendation was not addressed to the Tax Collector.

Section 7: CREDIT CARD AND E-CHECK FEES

GENERAL COMMENTS

Based upon direction from the Finance and Government Operations Committee (FGOC) in FY 2003, the Tax Collector's Office implemented an *Internet Tax Bill Presentment and Credit Card Payment System* 6 weeks after the Board of Supervisors appropriated the funds. The agreement with Official Payments Corporation (OPC) to provide the clearing house for acceptance of these payments was reviewed and approved by County Counsel. 26 counties in the state use OPC to collect property taxes. In all of these 26 counties the credit card transaction fee is either 2.5% or 3 %. The counties noted in the Management Report that charge a lower transaction fee than Santa Clara County are also responsible for the administrative and management costs of processing the credit card transactions. The Department is proud to have implemented this service in such an expedient manner.

RECOMMENDATIONS

The Tax Collector should:

7.1 Seek delegation of authority or present the current contract for credit card and e-check payment of property taxes to the Finance and Government Operations Committee and Board of Supervisors for approval. (Priority 1)

Agree: *We are working with the Controller-Treasurer and the E-Government Project in the development of County wide contracts for credit card and e check services.*

7.2 Provide an annual report to the Finance and Government Operations Committee to include the volume of property tax payment methods and the relative cost of each type of payment to the taxpayer and to the County. (Priority 3)

Agree: *This type of reporting capability will be included in the requirements for our new TCAS project.*

7.3 Reduce the e-check transaction fee to the transaction cost and any documented internal costs until the Board of Supervisors enacts policies related to the treatment of credit card and electronic transaction costs and fees. (Priority 1)

Partially Agree: *The Department has included in the FY 2006 budget, estimated revenue based on the current amount of the e-check fee. A reduction in the fee amount at this time would negatively impact the FY 2006 budget. We agree to complete a cost analysis of the actual costs relating to this fee during the course of FY 2006 and then adjust the fee amount accordingly.*

The Controller-Treasurer should:

7.4 Amend the County's cash handling policy to address the acceptance of credit card and electronic payments for County fees, charges and services, and present the policy to the Board of Supervisors for approval prior to issuing an E-Payment Request for Proposal (RFP). The proposed policy should include direction to Departments to evaluate the costs and benefits of accepting credit

cards and electronic payments when determining what forms of payment a department will accept. (Priority 2)

This recommendation was not addressed to the Tax Collector.

SECTION 8: SYSTEMS DEVELOPMENT

GENERAL COMMENTS

The Tax Collector's Office processes $3 billion of taxes annually on a legacy tax system that is 38 years old. The tax system is a collection of tape-based programs, technology that pre-dates the modern relational database. Staff members who maintain the legacy systems operations have retired or are nearing retirement. Legacy system source code support depends on one programmer now residing in Utah. The legacy tax system was designed prior to the enactment of Proposition 13 in 1978. The retrofitted code is fragile and difficult to upgrade or modify due to complex and non-modular software architecture. Because of this, many functions are done outside the system and much of the collection and apportionment of taxes is done manually. The limited support capability for fragile legacy mainframe applications and loss of experienced staff puts the collection of property taxes at risk.

By replacing a collection of manual processes and high-maintenance, obsolescent, error-prone systems with a modern, integrated, closed system, the Finance Agency will be able to greatly reduce risk, automate the accounting cycle, connect taxable events to their financial effect, streamline tax bill issuance, and accelerate collections.

The Finance Agency evaluated all alternatives and decided on a new project direction. This approach is to partner with a professional software development vendor to co-develop the system. The critical success factors were determined to be: on-site development; collaboration between County and software vendor; dedicated County project team to provide business expertise, technical and management support; small iterations; phased implementation; and the ability to implement modules in order most critical to the County. The selected project direction will leave the County fully capable of maintaining the system in future years without expensive vendor support.

The replacement of our 38-year-old legacy COBOL mainframe tax collection and apportionment systems with a modern, integrated system that encompasses the functions of the Tax Collector's Office and all of the apportionment functions of the Controller's Office is estimated to be completed within 3 years, and for a cost of approximately $10.7 million.

RECOMMENDATIONS

The Tax Collector and the Finance Agency should:

8.1 **Provide an off agenda report to the Board of Supervisors describing the business plan to market TCAS to other California counties. (Priority 3)**

Agree: *The Finance Agency will provide a report outlining the business plan to market TCAS by the end of FY 2006.*

The Tax Collector should:

8.2 Provide an annual report to the Board of Supervisors through the ITEC process quantifying the achieved efficiencies, elimination of positions and increased collection of property taxes from TCAS. (Priority 2)

Partially Agree: *We agree that an annual report of this type should be produced, however, we believe that it would be more appropriately presented to the Board of Supervisors through the FGOC.*

The Office of Budget and Analysis should:

8.3 Validate savings and revenue estimates included in proposals to the Information Technology Executive Committee and follow-up to ensure actual savings are realized after approved projects are implemented. (Priority 2)

This Recommendation was not addressed to the Tax Collector.

8.4 Review ITEC proposals to identify all potential and appropriate revenue sources available to fund each proposal. (Priority 3)

This Recommendation was not addressed to the Tax Collector.

The Board of Supervisors should:

8.5 Request a formal written opinion from the Office of the County Counsel specifying the authority of the Board of Supervisors in the appropriation and reappropriation of prior year, current year and future PTAP funds. (Priority 1)

This recommendation was not addressed to the Tax Collector.

8.6 Consider utilizing PTAP funds for all PTAP-eligible technology projects, including TCAS, prior to approving General Fund expenditures. (Priority 1)

This Recommendation was not addressed to the Tax Collector.

SECTION 9: BUSINESS PROCESS TRANSITION PLANNING

GENERAL COMMENTS

The TCAS project will be developing and implementing a series of training and transition plans as a part of the systems development. Being that TCAS will be developed and implemented incrementally over the course of the project, the training and transition plans will follow the road map of the project. Additionally, the project will be hiring a consultant early on to develop and provide a course in change management. Change management training will be provided to all staff.

We are confident in the ability of our staff to adapt to TCAS. In FY 1998, the staff successfully transitioned from microfiche records to a browser based automated system (TIS). As new TCAS modules are implemented, module specific training will be provided well in advance of the implementation of new systems and procedures. We are confident that our staff will embrace TCAS with the same enthusiasm as when they welcomed TIS automation. In addition, TCAS will be a very user-friendly system and is being programmed with built in "help features". It is planned that from wherever the user is accessing TCAS, content specific help and documentation will be available.

The determination of future staffing levels will begin once the TCAS project has selected and secured the professional software development firm. Once we have the full programming team in place, we will be able to assess final staffing needs together with the required skill levels. At that point, we will collaborate with Employee Services Agency (ESA) on the development and implementation of a staffing plan that will provide us with the appropriate positions needed for TCAS.

RECOMMENDATIONS

The Tax Collector should:

9.1 Develop a training plan that defines functional staffing strength and personnel skill requirements that will allow current staff to obtain the skills necessary to fill new or modified roles. (Priority 2)

Agree

9.2 Collaborate with the Employee Resources Agency to communicate potential staffing changes to affected labor organizations and employees of the Tax Collector's office and other departments in the Finance Agency as the project proceeds. (Priority 3)

Agree

County of Santa Clara

Finance Agency
Controller-Treasurer Department

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San Jose, California 95110-1705
(408) 299-5200 FAX (408) 289-8629

DATE: June 17, 2005

TO: Roger Mialocq
Management Audit Division Manager

FROM: David G. Elledge
Controller-Treasurer

SUBJECT: Management Audit of the Tax Collector

Thank you for the opportunity to review the Draft Management Audit of the Tax Collector. Several recommendations included in the audit report pertain to the Controller-Treasurer or the Director of Finance. Our responses are included below.

Recommendation 1.3

The Controller-Treasurer should establish a suspense account for depositing property tax payments that cannot be processed immediately. (Priority 1)

We disagree with the audit finding.

Mechanically, the Controller-Treasurer can establish a suspense account for depositing property tax payments that cannot be processed immediately. However, the Tax Collector has strong arguments why deposits should not be made until problems associated with the receipt of payment have been identified. The Controller-Treasurer had previously exempted the Tax Collector from specific provisions of the cash handling policy subject to described controls outlined in the exemption request. If those controls are followed, we support the Tax Collector's position.

Recommendation 2.4

The Controller-Treasurer should ensure that the appropriate Livestock Head Tax transfers occur timely pursuant to State Law. (Priority 1)

We agree with the recommendation.

The taxes deposited in the Livestock Head Tax Fund will be distributed to the taxing jurisdictions annually.

Recommendation 3.1

The Controller-Treasurer should implement recommendations 6.1, 6.3 and 6.4 of the 2002 Management Audit of the Controller-Treasurer, as shown in Attachment 3.3. (Priority 1)

We agree with the recommendation pending action to provide additional resources to the Controller-Treasurer.

The management auditors are recommending, as they have in the past, that the Controller-Treasurer take a more active role in the county departments' charges and rate setting process. Specifically, they are recommending that the Controller-Treasurer should develop and disseminate written procedures for charge and fee calculations and cost analysis and review all charges and fees submitted to the Board for compliance with State law, County policy, and cost accounting guidelines. We believe that these are sound recommendations and give them our support. However, the additional duties will require additional staff as recommended by the management auditors in their report on the Controller-Treasurer's Department. We believe that the minimum staffing to start the program will be the addition of a Senior Accountant.

The Controller-Treasurer cannot absorb the additional duties as suggested in the audit report due to past budget reductions and added assignments. For the past three budgets, our department eliminated or transferred out 17 positions. In fiscal year 2003/04 alone, our staff was reduced by 10 positions of which two were cost accountants. The remaining two cost accountants on staff are responsible for the preparation and submission of the SB 90 claims and the countywide cost allocation plan. In addition, these positions have the added duties of preparing the County Facilities Annual Payment (CFP) forms for submission to the State for each court facility within the county to comply with the courthouse facility transfer program. This will be an arduous task.

The Controller-Treasurer Department has not ignored the issue raised by the management auditors. Our Internal Audit Division have audited various departments on charges and fees including the Department of Corrections, Tax Collector, Clerk-Recorder, Medical Examiner and Coroner, and the Controller-Treasurer. We have provided training for the departments on the preparation of indirect cost rate proposals (ICRP) that is used to calculate departmental overhead that we believe is the most common reason for underestimating departmental costs. We also provide departments with advice and assistance when questions arise.

If additional resources were provided, the following would be our priorities to implement the management auditor's recommendations.

1) Develop and disseminate written procedures for charges and fees calculation.

2) Develop a countywide fee schedule annually to be presented to the Board of Supervisors for approval.

3) Review departments' charges and fees calculations for compliance with State law, County policy, and cost accounting guidelines.

4) Provide a more extensive review of the charges and fees calculations for specific departments. The Controller-Treasurer Department and OBA will prioritize the departments to be extensively reviewed based on potential revenue and date of last review.

Recommendation 6.7

The Finance Director should direct the Internal Audit Division to biennially review a sample of penalty appeal cases to ensure consistency of procedures, documentation and decisions. (Priority 3)

We disagree with the recommendation.

We believe that the Internal Audit Division should review the Tax Collector's written policies and procedures pertaining to penalty appeal cases to verify internal controls are in place to ensure consistency of procedures, documentation, and decisions. However, we do not believe that a biennial audit be mandated. Instead, the review as recommended should be included in the Internal Audit Division's annual risk assessment process to determine if it has a high audit priority compared with other audit needs and the resources available.

Recommendation 7.4

The Controller-Treasurer should amend the County's cash handling policy to address the acceptance of credit card and electronic payments for County fees, charges and services, and present the policy to the Board of Supervisors for approval prior to issuing an E-Payment Request for Proposal (RFP). The proposed policy should include direction to Departments to evaluate the costs and benefits of accepting credit cards and electronic payments when determining what forms of payment a department will accept. (Priority 2)

We agree with the recommendation.

The Controller-Treasurer Department, ISD and other departments have been working toward a standard approach to the electronic payment of charges and fees. This is a complex issue. We have gathered a considerable amount of information and feel that close to drawing conclusions but more still needs to be studied. We are currently working on amendments to the cash handling policy and we will incorporate a policy to direct departments to evaluate the costs and benefits of

accepting credit cards and electronic payments when determining what forms of payment a department will accept.

Again, both the Controller-Treasurer Department and ISD have faced severe budget reductions in the past. We are trying to fit in this project with our numerous other tasks. We hope to have a draft policy for FGOC review by the end of the calendar year.

County of Santa Clara

Office of the County Assessor

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Lawrence E. Stone, Assessor

MEMORANDUM

June 9, 2005

TO: Board of Supervisors
Management Audit Division

FROM: Mary M. Solseng
Assistant Assessor

SUBJECT: Confidential Revised Draft Report

Enclosed is our response to the Confidential Revised Draft Report dated May 18, 2005. I appreciated the opportunity to discuss the issues that jointly involve the Tax Collector and Assessor for the purpose of achieving mutually agreeable procedures that will result in greater efficiency for both departments.

MMS:dy

Enclosure

cc: Larry Stone
Rhonda Armstrong
David Ginsborg

2-012

INTRODUCTION

Page 6 – The Assessor disagrees with the statement made in reference to Property Tax Administration Program (PTAP) funding received from the State of California, Department of Finance, "Unexpended funds that remain at the end of each fiscal year are available for use by the Board of Supervisors, so long as the use does not supplant General Fund expenditures, is consistent with the statutory language of the legislation and grant documents, and is reported to the Department of Finance." Section 13 of the Grant agreements that provided these funds to the Tax Collector specifies:

> 13. CHANGES AND AMENDMENTS
>
> The County and the State reserve the right to change any portion of the work required under this agreement or to amend such other items and conditions as it may become necessary. Any such revisions shall be accomplished only with the written approval of the Assessor, the County and the State.

The meaning of that section was further affirmed in the letter from Mark Hill, Program Budget Manager, State Department of Finance to Assessor Lawrence E. Stone dated May 26, 2005. The Board of Supervisors does not have unilateral authority to use unexpended funds for any purpose whether consistent with the statutory language of the legislation and grant documents or not. Reallocation of the funds may be accomplished only upon approval of the State of California Department of Finance.

SECTION 4 COLLECTION OF UNSECURED PROPERTY TAXES

Recommendation 4.5 (page 78) – The Assessor agrees with the recommendation and looks forward to working with the Tax Collector to determine the cost effectiveness of this suggestion.

Recommendation 4.6 (page 78) - The Assessor does not disagree with this recommendation. However, we would not want to be compelled to reject the filing of a Business Property Statement based upon the omission of the SSN or FEIN information.

SECTION 5 UPDATING TAXPAYER ADDRESSES

Recommendation 5.1 (page 89) – The Assessor agrees with this recommendation.

Recommendation 5.2 (page 89) – No comment

Recommendation 5.3 (page 89) – The Assessor agrees with this recommendation.

Recommendation 5.4 (page 89) – The Assessor does not disagree with this recommendation. However, we do not anticipate changing address change policies or practices. That is, if formatting errors are determined they will be corrected. However, if a substantive change to the mailing address is proposed by a validation service we will continue to exercise due diligence in determining whether the address should be changed or not.

Recommendation 5.5 (page 89) – The Assessor does not disagree with this recommendation. If it is incorporated we request that the address change form provide for a required signature.

Recommendation 5.6 (page 89) – The Assessor agrees with this recommendation and welcomes receiving the information. However, we do not anticipate changing address change policies or practices and will continue to exercise due diligence in determining whether the address should be changed or not.

Recommendation 5.7 (page 90) – The Assessor does not disagree with this recommendation.

Recommendation 5.8 (page 90) - See the specific response to recommendations 5.2 through 5.6.

SECTION 8 SYSTEMS DEVELOPMENT

Page 127

The Assessor's Office agrees that given the preliminary assumptions of the Finance Agency and the management auditor regarding TCAS, the County will realize a significant one-time return on investment and annual savings as well. It is this very return on investment that supports the use of general funds for the TCAS project and satisfies the Board's focus on return on investment of all technology projects.

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The Board now agrees the State Department of Finance must first approve any reallocation of PTAP funding.

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County of Santa Clara

Office of the County Executive

County Government Center, East Wing
70 West Hedding Street
San Jose, California 95110
(408) 299-5105

June 17, 2005

To: Peter Kutras Jr., County Executive
Board of Supervisors' Management Audit Division

From: Leslie Crowell
County Budget Director

Subject: Response from the County Executive's Office of Budget and Analysis on the Management Audit of the Office of the Tax Collector

This report is in response to the Management Audit of Tax prepared by Board of Supervisors' Management Audit Division

Response to Recommendations Related to the Office of Budget and Analysis

Section 3, Recommendation 3.2: Approve a Countywide fee schedule on an annual basis, as prepared by the Office of Budget and Analysis (OBA), beginning in FY 2006-07. (Page 48).

The Office of Budget and Analysis believes that the recommendation to prepare a fee schedule is best implemented as part of an overall effort to address the recommendations by the Management Audit Division (HMR) related to fee policies and procedures. We believe this responsibility logically rests with the Controller Treasurer.

The recommendations included in the current Tax Collector audit are aligned with previous audit recommendations issued by the HMR on June 27, 2002 that recommended increased staffing for a new organizational unit that would be responsible for central oversight of the review of all County fees, including recommendations for appropriate fee increases on a consistent periodic basis. The audit found that most departmental fees are not reviewed on a regular basis, and that there was no mechanism that routinely examined whether or not fees covered the cost of services provided. At the time of the 2002 audit, more than 50 percent of all fees had not been increased for at least six years.

The HMR recommended that a Senior Accountant position be added in the Controller-Treasurer Department to oversee an annual countywide fee review of all departmental fees at a cost of $88,505 (for FY 2006 would be $101,485). Rather than add a position, the Administration recommended the use of a template to be developed by the Office of Budget and Analysis and the Controller's Office to serve as a mechanism for reviewing fees. Since that time, departments have reviewed fees as part of their annual budget submittal. (See attachment). Five departments have included fees increases in the FY 2006 budget.

- Registrar of Voters – Election Services Fees
- Tax Collector – Special Assessment Fees
- Clerk Recorder – Adjustments to Fees to Increase Cost Recovery
- Sheriff – Civil Fee related to Evictions
- Probation – Various Administrative and Cost Recovery Fees

Given that both the Office of Budget and Analysis and the Controller have reduced staff in FY 2003 – 2006, it is not practical to expect that a countywide review of fees, and the publication of a fee schedule, with the current staffing. In addition, it is not known at this time whether or not the cost of a position could be offset with additional fee revenues.

Section 8, Recommendation 8.3: The Office of Budget and Analysis should validate savings and revenue estimates included in proposals to the Information Technology Executive Committee (ITEC) and follow-up to ensure actual savings are realized after approved projects are implemented (Priority 2). Page 132.

Currently, the proposals for technology projects, which come before the ITEC, include cost and savings estimates provided by the requesting departments. Departments make every effort to provide realistic estimates, but depending on the project specifics, generating accurate estimates is difficult. Rather than have OBA validate savings and revenue estimates after an approved project is implemented, the Administration recommends that departments work closely with the Procurement Department, ISD and OBA to develop accurate estimates to the extent possible. Once a project is implemented, the information that would have been gained by determining *ahead of time* whether or not there will be savings generated or revenues gained as a result of the project is of less importance.

Another factor, which enters into the savings and revenue estimates, involves the extent to which the project begins and ends within the originally scheduled timeframe. If a project is not begun when originally planned, the savings and revenue estimates need to be revised by the department to fit the project schedule. Currently, the CIO submits a quarterly report to the FGOC on ITEC projects. As part of the Current Level or Recommended Budget processes, whichever is most appropriate, OBA can add an item to the CLB process checklist which requires that departments with completed projects or distinct project phases be sure to include information about any revenues or anticipated project savings or costs which were part of an ITEC project approval. As part of reviewing the annual budget, OBA can then evaluate the extent to which departments are able to follow through on the project plans, which were submitted to ITEC and later approved by the Board of Supervisors.

Section 8, Recommendation 8.4: Review ITEC proposals to identify all potential and appropriate revenue sources available to fund each proposal. (Page 132).

As part of the ITEC process departments are requested to identify other sources of funding in their business case, such as grants, fees, etc. Based on the situation, funding requests have been reduced or denied until the department can complete their research.

To emphasize the importance of identifying all of the potential and appropriate revenue sources available to fund an ITEC proposal, once a project has passed the stage where it is a high priority for recommended funding, the department could reconfirm the analysis of the revenues available. OBA and the Controller Treasurer could be consulted on revenue options as part of the project development.

OBA believes that the core responsibility for identifying revenues other than General Fund revenues to cover the costs of projects rests with the department, though it is important that OBA, the Office of the Controller Treasurer, or any other party with knowledge of revenues be consulted by the department if necessary.