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COUNTY OF LOS ANGELES DEPARTMENT OF AUDITOR-CONTROLLER

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REVISED

October 17, 2018

TO: Joseph Kelly
Treasurer and Tax Collector

FROM: Robert G. Campbell, Chief
Office of County Investigations

SUBJECT: **TREASURER AND TAX COLLECTOR – IMPROVEMENT
OPPORTUNITIES NOTED DURING A LIMITED REVIEW – CASE #2017-
13392**

During a recent limited review at the Los Angeles County (County) Treasurer and Tax Collector (TTC), the Auditor-Controller's (A-C) Office of County Investigations noted an area where TTC can strengthen internal controls over Public Auctions. Please see Attachment I, Table of Findings and Recommendations for Corrective Action, for details of our review.

Review of Report

We discussed our findings and recommendation with TTC management, who generally agreed and indicated they will implement the recommendation. We included TTC's written response in Attachment II. Attachment III describes our priority rankings system and timelines for implementing recommendations.

Follow-up Process

The A-C has a follow-up process designed to provide assurance to the Board of Supervisors that departments are taking appropriate and timely corrective action to address recommendations for corrective action. Within six months of the date of this report, the department must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review the department's reported corrective action and

supporting documentation, and report back on the results. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

Management’s Responsibility for Internal Controls

Management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C’s role is to assist management by performing periodic assessments of the effectiveness of the department’s internal control systems. These assessments complement, but do not in any way replace management’s responsibilities over internal controls.

Limitations of Internal Controls

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable, but not absolute assurance that an organization’s goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.

We thank TTC management and staff for their cooperation and assistance during our investigation. If you have any questions please call me at (213) 893-0058, or your staff may contact Supervising Investigator Thomas Wood at (213) 893-0577.

RGC:GH:TW:gls

IOR-2017-13392

Attachments

c: John Naimo, Auditor-Controller
Audit Committee

TREASURER AND TAX COLLECTOR – IMPROVEMENT OPPORTUNITIES
NOTED DURING A LIMITED REVIEW #2017-13992

TABLE OF FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION

	ISSUE	RISK	RECOMMENDATION	P¹	SUMMARY OF RESPONSE
1	<p>Formal Written Guidelines for Property Auction Communications: Treasurer and Tax Collector (TTC) staff could benefit from more formal guidance, such as a policy or code of conduct, to guide them when interacting with prospective bidders in County property auctions. This could improve communication by directing public inquiries to the correct authority, ensuring that consistent information is released in response to public requests, and establishing expectations and a better understanding of the type of data that TTC staff may share.</p>	<p>In the absence of formal guidance on responding to public inquiries and what information can generally be disclosed related to County auctions of real property, there is a risk that staff may erroneously provide information that gives one prospective bidder an advantage over another, and/or creates the appearance of partiality.</p>	<p>Treasurer and Tax Collector management develop formal guidance and policies/procedures to:</p> <ol style="list-style-type: none"> 1. Guide staff in responding to public inquiries related to property auctions; 2. Inform the public how to request information about properties for sale by the County, and; 3. Describe what information about auction properties can generally be disclosed to the public. 	2	<p>TTC management agreed and indicated they will develop guidelines for staff related to interacting with prospective bidders.</p>

¹ **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR

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TREASURER AND TAX COLLECTOR

Board of Supervisors
HILDA L. SOLIS
First District
MARK RIDLEY-THOMAS
Second District
SHEILA KUEHL
Third District
JANICE HAHN
Fourth District
KATHRYN BARGER
Fifth District

September 7, 2018

TO: Robert G. Campbell, Chief
Office of County Investigations
Auditor-Controller

FROM: Joseph Kelly 
Treasurer and Tax Collector

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER IMPROVEMENT OPPORTUNITIES
NOTED DURING A LIMITED REVIEW #2017-13392**

The Department has reviewed the Auditor-Controller's report and agrees with the findings and recommendations. The Department will report the corrective actions planned and/or taken to address the recommendations within the timeframes established by the respective priority rankings.

If you have any questions, please contact Keith Knox, Chief Deputy Treasurer and Tax Collector, at (213) 974-0703.

JK:KK:sld

Attachment

PRIORITY RANKING DEFINITIONS

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.