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County Auditor

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# Treasurer's Office Property Taxes

July 2018

*Internal Audit Report Authorized by the  
Maricopa County Board of Supervisors*

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## Report Highlights

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Real property taxes were computed, collected,  
and disbursed in accordance with statute.

1

Delinquent real property taxes were collected  
and disbursed in accordance with statute.

2

Cash receipts were properly recorded and  
safeguarded, although daily reconciliation  
procedures could be improved.

3

<b>Objectives</b>	<p>To ensure that:</p> <ul style="list-style-type: none"> <li>• Real property tax rolls accurately reflect property tax levies and rates approved by jurisdictional authorities.</li> <li>• Tax collections and disbursements to the taxing jurisdictions are conducted in accordance with statute.</li> <li>• Collection efforts on delinquent property taxes are conducted in accordance with statute.</li> <li>• Cash receipts are accurately recorded and adequately safeguarded.</li> </ul>
<b>Scope</b>	<p>The audit covered taxes levied during Tax Year (TY) 2016 and the related tax payments collected in the second half of 2016 and first half of 2017. It also covered collections of delinquent taxes.</p>
<b>Standards</b>	<p>This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing.</p>
<b>Auditors</b>	<p>Carla Harris, Audit Manager, CPA, CIA, CFE          Patra Carroll, IT Audit Supervisor, MSIM, CPA, CISA          Timothy Lockinger, Senior Auditor          Hilary Munger, Internal Auditor, MPA</p>

This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited.

We have reviewed this information with Treasurer’s Office management. The action plan was approved by Royce Flora, County Treasurer, on June 7, 2018.

If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

## Audit Results

### **Issue #1: Property Tax Roll Preparation and Collection Processes**

**Background:** The property tax roll lists assessed value and jurisdictional tax levies (per approved tax rates) that provides a complete listing of taxes due for all real and business personal property. Tax roll information is reviewed by the Treasurer's Office, Assessor's Office, Department of Finance, and the Education Services Agency to ensure that the data is complete and accurate.

Most property tax payments can be made in two installments, with the first due on October 1, and the second due on March 1. Property taxes can be paid online, by mail, in person at the Treasurer's Office or any Chase Bank branch, or through a mortgage company. Once collected, property taxes are required to be paid to the tax jurisdictions by the 15<sup>th</sup> day of the following month.

**Observation:** We examined the property tax roll and collection processes to verify that real property values, tax rates, and applicable credits were accurately reflected in the tax roll, and that property taxes due were collected in accordance with statute. We also verified that tax collections were disbursed to the tax jurisdictions, in accordance with statute. A summary of our findings appears below.

#### Property Tax Roll Complies with Statutory Requirements

The property tax roll accurately reflected countywide Net Assessed Value of \$36.2 billion, and a tax levy before credits of \$4.65 billion. We reviewed a sample of tax area codes and determined that the approved tax rates were used in preparing the property tax roll.<sup>1</sup> We also selected a sample of real property parcels and verified that state and county tax credits were correctly applied. Additionally, we selected a sample of real property parcels and recalculated the property tax due. We concluded that property taxes were accurately calculated for all sampled parcels.

#### Property Tax Collections Comply with Statutory Requirements

We reviewed a sample of real property parcels and determined that property taxes were properly billed and collected, and that unpaid taxes were included in the tax lien sale process. We also examined the "Notice of Property Taxes Due" and found that it was advertised in compliance with statute.

#### Property Tax Revenues were Disbursed in Accordance with Statutory Requirements

We reviewed a sample of monthly property tax apportionment records and determined that the Treasurer's Office completed at least two property tax apportionments each month, exceeding the statutory requirements. We also reviewed the property tax disbursements made to a sample of tax districts and concluded that they were paid in accordance with statute.

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<sup>1</sup> Tax area codes designate which taxing district a property is located in.

<b>Conclusion #1A:</b> The property tax roll was prepared in accordance with statute, and property taxes due were accurately calculated.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A
<b>Conclusion #1B:</b> Property tax payments were properly collected and recorded.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A
<b>Conclusion #1C:</b> Property tax receipts were disbursed by the 15 <sup>th</sup> day of the following month, as required by statute.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A

**Issue #2: Collection of Delinquent Real Property Taxes**

**Background:** The Treasurer's Office is responsible for collecting delinquent taxes through the sale of tax liens. Property owners are notified of past due taxes and impending tax lien auctions through a series of mailed notifications and public advertisements. Investors purchase tax liens in the form of a certificate of purchase (CP) at an annual on-line auction. CPs purchased by investors who already paid and own the previous year's tax liens, are considered sub-taxed and are not included in the next auction.

**Observation:** We examined the collection processes for delinquent real property taxes to verify that (a) notifications were provided to property owners in accordance with statute, and (b) sub-taxed CPs accurately reflected the purchase price and were sold to qualified investors. We also verified that the tax lien certificate auction was held as required, and auction proceeds were accurately calculated and properly distributed. A summary of our findings appears below.

Property Owners with Delinquent Taxes Received Accurate Notifications

We reviewed a sample of tax statements for delinquent accounts and confirmed that they included applicable past due notifications and that amounts due were accurate. We also examined the listing of tax liens to be sold at auction and found that all required information was included, and that advertisements and related notices of delinquent accounts substantially conformed to statute.

### Sub-Taxed CPs Complied with Statutory Requirements

We reviewed a sample of sub-taxed accounts and determined that (1) all required information was included, (2) the purchase price was accurately calculated, and (3) CPs were issued to investors qualified to sub-tax the parcel.

### The 2018 Tax Lien Certificate Auction Complied with Statutory Requirements

We reviewed a sample of tax liens and determined that (1) the sampled tax liens withheld from auction were done so for valid reasons, (2) sampled tax liens offered at auction contained the required information, and (3) the CP purchase price was accurately calculated.

The tax lien certificate auctions occurred in February 2018, as required by statute. Auction proceeds were apportioned timely and distributed in accordance with statute.

<b>Conclusion #2A:</b> Property owners with delinquent TY 2016 real property taxes were properly notified of delinquencies for all accounts reviewed.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A
<b>Conclusion #2B:</b> Sub-taxed Certificates of Purchase reviewed were calculated accurately and processed in accordance with statute.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A
<b>Conclusion #2C:</b> Tax lien certificates reviewed were auctioned in accordance with statute.	
<b>Recommendation</b>	<b>Treasurer's Office Action Plan</b>
None	N/A

### **Issue #3: Cash Handling**

**Observation:** In FY 2017, the Treasurer's Office recorded cash receipts totaling \$207,518,037, including \$11,859,265 in cash and \$195,658,772 in checks. Credit card payments were not accepted as over-the-counter transactions.

We reviewed the Treasurer’s Office cash handling and reconciliation procedures to assess controls and verify compliance with state statute and established policies and procedures. We also performed cash counts at a sample of cashier stations.

We determined that adequate controls were in place for select cashier and vault control procedures including: (1) opening balances, (2) transaction activity, (3) safeguarding cash, and (4) armored car pick-up. We reviewed a sample of cash deposits and found that daily cash reports, daily vault cash deposit logs, bank deposit slips, bank statement records, and daily bank account reconciliations were substantially accurate and complete. We found that the cash on hand reconciled to the Treasurer Information System.

However, we found internal control weaknesses in the daily cash reconciliation process. Specifically, cashiers did not ensure that all currency was the same denomination prior to weighing, and supervisors did not perform an independent second cash count. Additionally, the Treasurer’s Office Policy C-008, Daily Balancing Procedures, does not include sufficient detail regarding (1) reconciliation procedures, including processes to ensure that all currency was the same denomination prior to weighing, and (2) supervisor verification and dual cash counts.

<b>Conclusion #3A:</b> Adequate controls appear to be in place to properly safeguard cash receipts. However, daily reconciliation procedures should be strengthened.	
<b>Recommendation</b>	<b>Treasurer’s Office Action Plan</b>
<b>3A-1</b> The Treasurer’s Office should update the Treasurer’s Office Policy C-008, Daily Balancing Procedures, to enhance (a) daily cashier reconciliations, (b) cash counts, and (c) supervisor dual verifications.	<p>Concur – in progress</p> <p>The Client Services Division enforces a strict set of balancing procedures to safeguard all county monies collected through the Treasurer’s Office. After a review of Treasurer Office Policy C-008 the Treasurer agrees it needs updating. Updating policy C-008 is complete and currently undergoing extensive review in all Treasurer Office divisions. Once finalized a copy will be provided to the auditors.</p> <p>Target Date: June 30, 2018</p>