

**OKLAHOMA COUNTY
TREASURER'S OFFICE**

PERFORMANCE AUDIT

JULY 1, 2004 THROUGH JUNE 30, 2005

**OFFICE OF THE STATE AUDITOR AND INSPECTOR
JEFF A. McMAHAN**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

July 27, 2006

TO THE OKLAHOMA COUNTY TREASURER

Transmitted herewith is the performance audit of the Oklahoma County Treasurer's Office. The procedures we performed were at the request of the County Treasurer in accordance with 74 O.S., § 213.2.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

TABLE OF CONTENTS

	Page
Audit Summary.....	3
Background, Scope, and Objectives	5
Observations and Recommendations.....	6
Other Items Noted.....	10

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OKLAHOMA COUNTY TREASURER'S OFFICE

PERFORMANCE AUDIT SUMMARY

JEFF A. McMAHAN, CFE

OFFICE OF THE STATE
AUDITOR & INSPECTOR

Why the audit was performed

This performance audit was conducted at the request of the Oklahoma County Treasurer in accordance with 74 O.S. 2001, § 213.2.

The objectives of the audit were:

I) To determine if the methods used by the Current Operations Department for processing tax payments is operating in an efficient and effective manner

II) To determine if the process used by the Treasurer for managing funds paid under protest is operating in an efficient and effective manner

Contract with the Bank of Oklahoma to process tax payments – page 6

- The Treasurer's Office (Treasurer) is responsible for collecting and processing ad valorem (property) taxes for Oklahoma County. They have a contractual relationship with the Bank of Oklahoma (BOK) to process payments received in October through January. *We recommend the Treasurer consider requesting payment data electronically rather than on disk as well as adding BOK's "interactive" services to the terms of their contract. This would appear to be a more efficient use of resources.*

Tax payments processed by the Treasurer – page 7

- There are three additional, primary methods in which tax payments are accepted: 1) on-line 2) walk-in/mail 3) escrow account through a mortgage company. Management states that approximately 107,000 payments were manually (walk-in/mail) processed in fiscal year 2005. However, they are unable to distinguish the amount of payments coming through the Treasurer's mailroom as no method for tracking this is in place. *Management may wish to develop a method for identifying the amount of payments received through the mailroom for a certain period of time, preferably during a peak period. Once identified, they should review the activity to determine if a significant portion of payments are being mailed. If the amount is significant, the risk for improprieties increases since a portion of the payments may be made in cash. Therefore, procedures should be developed to track mailed payments on a continuing basis.*

Paid under protest should be reconciled quarterly – page 8

- If a taxpayer disagrees with the value of their property as assessed by the county assessor, they may do the following: 1) pay the specified property tax to the Treasurer 2) notify the Treasurer that they are appealing a portion of the tax. The notification should be on an Oklahoma Tax Commission (OTC) form 990 and must be attached to a petition filed in the court in which the appeal was taken. The Treasurer holds the protested funds in a separate account that is invested. The investment ledger is reconciled to the county's general ledger on an annual basis. *To reduce the risk of errors occurring and going undetected, we recommend management reconcile the general ledger to the investment ledger on a quarterly basis.*

Treasurer appears to release funds paid under protest in accordance with state law- page 9

- We judgmentally selected 50 protested accounts from 1995 to 2004 to ensure management had adequate supporting documentation for the protest and release of the funds. All applicable documentation was present for the 50 accounts inspected with the exception of one account which was missing OTC form 990.

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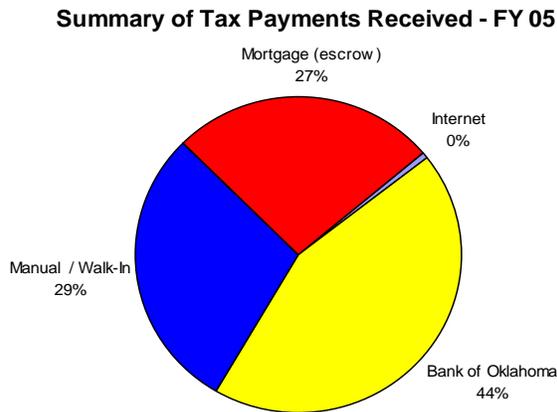
BACKGROUND

The Oklahoma County Treasurer (Treasurer) is an elected, constitutional officer with a four-year term whose primary function is to collect taxes certified by the County Assessor from the assessment valuations placed on real estate, personal property, and public utilities in the County.

The Treasurer requested a performance audit on the following two areas of the office:

- The Current Operations Department is responsible for collecting and processing property taxes for the County via six methods:
 - Mailed to a PO Box and processed by the Bank of Oklahoma
 - Internet
 - Manual/Walk-in
 - Mortgage (escrow)
 - Pre-payments
 - Resale

The following chart is management's representation of the types of tax payments received during fiscal year 2005:



- 68 O.S., § 2884 B. allows a taxpayer to protest the assessed value of their property. Part C. of this section requires the Treasurer to hold the taxes paid under protest separate and apart from other taxes collected.

SCOPE

This audit was conducted pursuant to 74 O.S., §213.2 and was performed in accordance with *Government Auditing Standards*. The audit period is July 1, 2004 through June 30, 2005.

OBJECTIVES

We identified the following as our objectives:

- I) To determine if the methods used by the Current Operations Department for processing tax payments is operating in an efficient and effective manner;
- II) To determine if the process used by the Treasurer for managing funds paid under protest is operating in an efficient and effective manner.

OBSERVATIONS AND RECOMMENDATIONS

1) To determine if the methods used by the Current Operations Department for processing tax payments is operating in an efficient and effective manner

METHODOLOGY

Internal controls in place were considered through interviewing Current Operations Department personnel. In addition, the following procedures were performed:

- We inspected written procedures for processing payments in-house;
- We observed the Bank of Oklahoma's procedures for processing tax payments;
- We inspected data prepared by management related to the number of and manner in which tax payments are processed.

OBSERVATIONS

How are Tax Payments Received by the Treasurer?

The Current Operations Department (COD) is responsible for collecting and processing ad valorem (property) taxes for Oklahoma County. These taxes are due annually on or before December 31st. Throughout the month of October, tax notices are distributed to property owners (residential and commercial) with a self-addressed, return envelope addressed to a PO Box maintained by the Bank of Oklahoma (BOK). The Treasurer's Office (management) and BOK have a contractual agreement for BOK to process payments for four months, starting in October and ending in January. These are considered the peak tax months.

Payments sent to BOK are processed through a computerized machine that reads the data on the tax notice coupon as well as the check/money order that was sent with it. The amount of the check must be the correct amount of the total due or within a \$2.00 (above or below) range for BOK to process. If the coupon is missing or the check does not meet the above standards, the payment is rejected and is sent to management for processing. If all the information is correct, the machine copies an image of the coupon and check to a disk. This disk is delivered to management via courier and the payment data is transferred into their system. Any rejected payments are picked up by personnel from the cashier's department of the Treasurer's Office.

BOK officials expressed management may wish to consider receiving the saved data electronically rather than on disk. There would be no additional cost and would appear to be more efficient. Additionally, BOK officials stated management may wish to consider subscribing to "interactive" capabilities with BOK. For instance, if a payment received by BOK did not have an account number, management would be notified and could access BOK's system to provide the necessary information, allowing BOK to process the payment. This would eliminate the manual transfer of rejected payments by management. BOK indicates that this mechanism would be of minimal cost to management.

RECOMMENDATION

We recommend the following:

- Management should consider requesting payment data electronically rather than on disk;
- Management should consider adding BOK's "interactive" services to the terms of their contract.

Both recommendations appear to be a more efficient use of resources.

**VIEWS OF RESPONSIBLE
OFFICIALS**

Recommendation to consider receiving payment data from BOK electronically rather than on disk would be more efficient and will be pursued.

Recommendation to consider using interactive capabilities to process checks without statements or account numbers by BOK has been discussed in the past. While all of the details in accomplishing this are unclear, we will consider this process again and review the actual cost.

OBSERVATIONS

The COD has an additional five methods in which taxes can be paid; however, two of the methods have so few transactions associated with them, they will not be discussed. The other three are:

- **On-line payments via Treasurer's website-** This service is available during November and December while half-payments may be made from mid January through March 31. Only credit or debit cards are accepted;
- **Mortgage payments-** This method includes payments made electronically through a mortgage company (escrow account);
- **Manual payments** –Taxpayers may walk into the Treasurer's office and make a payment. The tax clerk posts the payment through the NETADVANTAGE (must be a current year payment) system if the customer is paying by check/credit card. This process is similar to BOK's, only on a smaller scale. If they pay with cash or are paying on a prior year, delinquent tax, the payment must be manually processed by the cashiers. Citizens with delinquent taxes who do not pay in person are instructed to mail their payment directly to the Treasurer's office rather than BOK. We inquired as to the number of payments received through the mail. Management states that approximately 107,000 (29% of the total as presented in the chart below) payments were manually (walk-in and mail) processed. However, they are unable to distinguish the amount of payments coming through the Treasurer's mailroom as no method for tracking this is in place.

RECOMMENDATION

Management may wish to develop a method for identifying the amount of payments received through the Treasurer's mailroom for a certain period of time, preferably during a peak period. Once identified, they should review the activity to determine if a significant portion of payments are being mailed. If the amount is significant, the risk for improprieties increases since a portion of the payments may be made in cash. Therefore, procedures should be developed to track mailed payments on a continuing basis.

**VIEWS OF RESPONSIBLE
OFFICIALS**

We are in the process of replacing the mail opening equipment, and we will inquire on equipment that opens and counts mail so we can log and identify payments and any cash payments.

II) To determine if the process used by the Treasurer for managing funds paid under protest is operating in an efficient and effective manner.

METHODOLOGY

Internal controls in place were considered through interviewing “paid under protest” personnel. In addition, the following procedures were performed:

- We read 68 O.S., § 2884;
- We inspected the protested payment report as of June 30, 2005;
- We inspected the fiscal year 2005 paid under protest reconciliation.

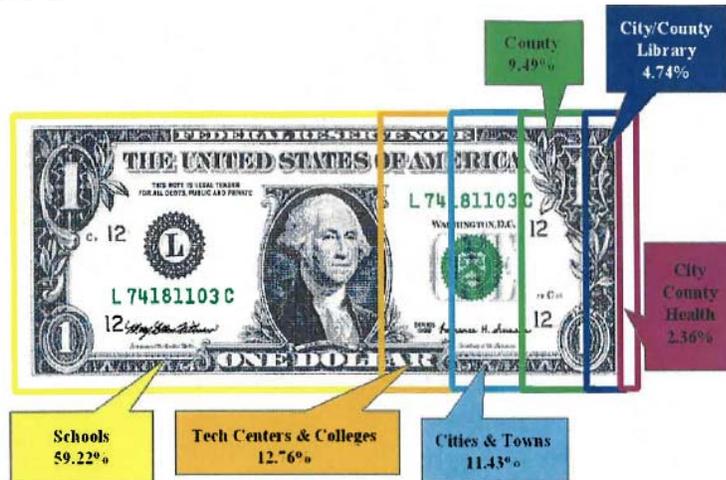
OBSERVATIONS

Can a taxpayer protest the assessed value of their property?

If a taxpayer disagrees with the value of their property as assessed by the county assessor, they may do the following:

- Pay the specified property tax to the Treasurer;
- Notify the Treasurer that they are appealing a portion of the tax. The notification should be on an Oklahoma Tax Commission (OTC) form 990 and must be attached to a petition filed in the court in which the appeal was taken.

The Treasurer will hold the protested portion of the tax in a separate fund while the remaining balance will be apportioned according to the following illustration:



Source: Oklahoma County Assessor

The protested funds are invested by the Treasurer and held there until released by notification from the courts or the State Board of Equalization (SBOE). The SBOE is involved if the protesting party is a railroad, air carrier, or public service corporation.

Protest fund should be reconciled quarterly

As stated in the previous objective, tax payments are made primarily in November and December of each year. Consequently, this is the time period where funds are added to the paid under protest account. However, management stated they do not reconcile the protested funds per the investment ledger to the County’s general ledger until June 30 of each year.

RECOMMENDATION To reduce the risk of errors occurring and going undetected, we recommend management reconcile the general ledger to the investment ledger on a quarterly basis.

VIEWS OF RESPONSIBLE OFFICIALS Beginning with 2006-07 fiscal year, management will reconcile the protest fund on the general ledger to the protest fund on the investment ledger quarterly.

Treasurer's Office appears to release protested funds in accordance with state law

In order to track the number and amount of funds on protest, management maintains a "protested payment report" on a fiscal year basis. The following table illustrates the activity presented in this report at June 30, 2005:

Table 1 – Protested Accounts by Year			
Tax Year	Number of Accounts Protested	Number of Accounts Released	Accounts on Protest at 6-30-05
1995	8	0 ¹	8
1996	9	0 ¹	9
1997	10	0 ¹	10
1998	0	0	0
1999	7	7	0
2000	10	9	1
2001	4	3	1
2002	73	73	0
2003	62	8	54
2004	95	5	90
Total	278	105	173

SOURCE: Protested payment report – June 30, 2005

As discussed earlier, each taxpayer must provide management a copy of an OTC Form 990 and a court petition when they protest their assessment. We judgmentally selected 50 protested accounts from 1995 to 2004 to ensure management had adequate supporting documentation for the protest and release supporting documentation from the courts or SBOE, if applicable. See Table 2 below for sample breakdown:

Table 2 – Protested Funds Sample Breakdown		
Tax Year	Number of Accounts Protested	Number Selected in Sample Per Year (% of total * 50)
1995	8	1
1996	9	1
1997	10	2
1998	0	0
1999	7	1
2000	10	1

¹ There were 20 protests released from tax years 1995, 1996, and 1997 combined that are not reflected on the June 30, 2005 protested payment report.

**OKLAHOMA COUNTY TREASURER'S OFFICE
PERFORMANCE AUDIT**

Table 2 Continued – Protested Funds Sample Breakdown		
Tax Year	Number of Accounts Protested	Number Selected in Sample Per Year (% of total * 50)
2001	4	1
2002	73	13
2003	62	12
2004	95	18
Total	278	50

SOURCE: Auditor analysis

In determining our sample, we selected all accounts that had been released during a given year before judgmentally selecting any remaining accounts by amount. All applicable documentation was present for the 50 accounts inspected with the exception of one account which was missing OTC form 990.

Other Items Noted

To provide an additional resource to management, we sent a survey to 21 counties across the country with a population similar to Oklahoma County. The purpose of the survey was to determine if:

1. The county had a law similar to Oklahoma County/ State of Oklahoma regarding protesting the assessed value of property;
2. If yes, how is the appeal process handled?

We have not evaluated the adequacy of the individual processes used by the responding 17 counties identified below. However, the appeals process identified may prove to be a resource to the Treasurer's Office in the future.

Table 3 – Summary of Various Counties' Protest Laws			
County and State	Population	Department	Summary of Process Used
Oklahoma County, OK	680,815	County Treasurer	Described in body of report
Tulsa County, OK	569,148	County Treasurer	Same as Oklahoma County
Hamilton County, OH	814,611	County Treasurer	Taxpayer appeals to the County Board of Revision which renders a ruling.
Polk County, FL	524,389	County Property Appraiser	Taxpayer appeals to the County Value Adjustment Board which renders a ruling.
Dekalb County, GA	675,725	County Tax Commission	Taxpayer appeals to the County Board of Equalization which renders a ruling.
Baltimore City County, MD	636,251	County Assessment Office	Taxpayer appeals to the County Assessment Office but may appeal their decision to the Property Tax Assessment Appeals Board and the Maryland Tax Court, if needed.
Bernalillo County, NM	593,765	County Assessor	Taxpayer must bring action in district court which will render a ruling.
Douglas County, NE	482,112	County Assessor	Taxpayer appeals to the County Board of Equalization which renders a ruling.
Pulaski County, AR	365,913	County Assessor	Taxpayer appeals to the County Board of Equalization which renders a ruling.

Table 3 Continued– Summary of Various Counties' Protest Laws			
County and State	Population	Department	Summary of Process Used
Washoe County, NV	380,754	County Assessor	Taxpayer appeals to the County Board of Equalization which renders a ruling. They may appeal the decision to the State Board of Equalization.
Monterey County, CA	414,629	County Assessor	Taxpayer appeals to the County Board of Equalization which renders a ruling.
Pierce County, WA	745,411	County Board of Equalization	Taxpayer appeals to the County Board of Equalization which renders a ruling.
Jefferson County, KY	700,030	Property Valuation Administrator	Taxpayer must have a conference with the property value administrator. They then may appeal to the local Board of Assessment Appeals and the State Board of Tax Appeals, if needed.
Lake County, IN	490,844	County Assessor	Taxpayer must hold a conference with the assessing official. If the issue is not resolved, they may appeal to the county property tax assessment board of appeals.
Wake County, NC	719,520	County Revenue Department	Taxpayer appeals to the County Board of Equalization which renders a ruling. They may appeal this decision to the State Property Tax Commission.
Jefferson County, AL	658,495	County Tax Assessor	Taxpayer appeals to the County Board of Equalization which renders a ruling. They may appeal this decision to the circuit court.
Davidson County, TN	572,475	County Board of Equalization	Taxpayer appeals to the County Board of Equalization which renders a ruling. They may appeal this decision to the State Board of Equalization and the chancery court, if needed.
Johnson County, KS	496,691	County Appraiser	Taxpayer can appeal to the County Appraiser who will render a ruling.

It is interesting to note that of the counties which responded, only two (one of which is Tulsa) have a law similar to Oklahoma County requiring the taxpayer to file their initial appeal in court. All others appear to manage the appeal through a local or state board.

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