

# MONO COUNTY

Audit Report

## APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

*July 1, 2015, through June 30, 2023*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

February 2025



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CALIFORNIA STATE CONTROLLER

February 28, 2025

Ms. Janet Dutcher, CPA, Director  
Mono County Finance Department  
P.O. Box 556  
Bridgeport, CA 93517

Dear Director Dutcher:

The State Controller's Office audited Mono County's process for apportioning and allocating property tax revenues for the period of July 1, 2015, through June 30, 2023. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that Mono County did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Reimbursement of property tax administrative costs; and
- Educational Revenue Augmentation Fund.

If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138, or email at [lkurokawa@sco.ca.gov](mailto:lkurokawa@sco.ca.gov). Thank you.

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/rs

Ms. Janet Dutcher  
February 28, 2025  
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Copy: Kim Bunn, Assistant Director  
Mono County Finance Department  
The Honorable Lynda Salcido, Chair  
Mono County Board of Supervisors  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Mono County's (the county) process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes during the period of July 1, 2015, through June 30, 2023.

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Reimbursement of property tax administrative costs; and
- Educational Revenue Augmentation Fund (ERAF).

## Background

After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide these agencies and districts with a property tax base that would grow as assessed property values increased. The method has been further refined in subsequent laws.

One key law was Assembly Bill 8 (Chapter 282, Statutes of 1979), which established the method of allocating property taxes for fiscal year (FY) 1979-80 and subsequent fiscal years. The methodology is commonly referred to as the "AB 8 process."

Property tax revenues are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code. In general, the amount of revenue that an agency or district receives is based on the amount received in the prior year plus a share of the property tax growth within its boundaries.

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies and the development of the tax rate area (TRA) annual tax increment (ATI) apportionment factors, which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 factor for each entity for the year. The AB 8 factors are computed each year for all entities using the revenue amounts established in the prior year. These amounts are adjusted for growth annually using ATI apportionment factors.

Subsequent laws removed from the AB 8 process revenues generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and qualified electric properties. These revenues are now apportioned and allocated under separate processes.

Other laws established an ERAF in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently apportioned and allocated to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California community colleges.

Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if the taxes are unpaid, the obligation can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not have sufficient permanence or other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the California State Board of Equalization.
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

To mitigate problems associated with the apportionment and allocation of property tax revenues, Senate Bill 418, which requires the SCO to audit the counties' apportionment and allocation methods and report the results to the Legislature, was enacted in 1985.

Apportionment and allocation of property tax revenues can result in revenues to an agency or agencies being overstated, understated, or misstated. Misstated revenues occur when at least one taxing agency receives more revenue than it was entitled to, while at least one taxing agency receives less revenue than it was entitled to.

The agency that received less tax revenue than its statutory entitlement would have standing to require that adjustments be made by the county, either on a retroactive or prospective basis. The SCO does not have enforcement authority or standing to require the county to take corrective action with respect to misallocation of tax revenues, unless the misallocation resulted in overpaid state funds (e.g., funds intended for the ERAF, school districts, or community college districts). The SCO has

authority to recover misallocations resulting in overpaid state funds pursuant to Government Code (GC) sections 12410, 12418, and 12419.5.

GC section 12410 provides the SCO with broad authority to “superintend the fiscal concerns of the state.” GC section 12418 provides the SCO with the authority to “direct and superintend the collection of all money due the State, and institute suits in its name” against all debtors of the State. GC section 12419.5 provides the SCO with the authority to offset any amounts due the State against any amounts owed to the debtor by the State.

Revenue and Taxation Code (RTC) section 96.1(b) allows a reallocation of current audit findings and unresolved prior audit findings.

RTC section 96.1(c)(3) limits a cumulative reallocation or adjustment to one percent of the total amount levied at a one-percent rate of the current year’s original Secured Tax Roll. For reallocation to the ERAF, school districts, or community college districts, a reallocation must be completed in equal increments within the following three fiscal years, or as negotiated with the SCO.

## **Audit Authority**

We conducted this audit in accordance with GC section 12468, which authorizes the SCO to audit the apportionment and allocation of property tax revenues on a one-, three-, or five-year cycle, depending on the county’s population. The audit results are reported annually to the Legislature along with any recommendations for corrective action.

## **Objective, Scope, and Methodology**

Our audit objective was to determine whether the county complied with Revenue and Taxation Code, Health and Safety Code, and Government Code requirements pertaining to the apportionment and allocation of property tax revenues during the period of July 1, 2015, through June 30, 2023.

A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A tax bill may also contain special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is limited to the distribution of the one percent tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the county’s processes and internal controls by interviewing key personnel, reviewing the county’s written procedures, and reviewing the county’s transaction flow for apportioning and allocating property tax revenues.
- We assessed the reliability of data from the property tax system by interviewing county staff members knowledgeable about the system, tracing transactions through the system, and recalculating various

computations using data produced by the system. We determined that the data was sufficiently reliable for purposes of this report.

- We judgmentally selected a non-statistical sample of five from approximately 30 taxing jurisdictions within the county for all fiscal years in the audit period.

The actual number of taxing jurisdictions can vary from year to year based on jurisdictional changes. For testing purposes, we included the ERAF in our sample of taxing jurisdictions. We also tested a special district, a school district, a city, and the county. We selected only one of each type of local agency because when the apportionment and allocation for one jurisdiction is incorrect, the error affects every other taxing jurisdiction.

We tested the sampled jurisdictions as follows:

- We tested apportionment and allocation reports to verify the computations used to develop property tax apportionment factors.
- We tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI.
- We reviewed supplemental property tax administrative costs and fees to determine whether recovery costs associated with administering supplemental taxes were based on actual costs and did not exceed five percent of revenues collected, as prescribed in statute.
- We verified the computations used to develop supplemental property tax apportionment factors.
- We verified unitary and operating nonunitary computations used to develop apportionment factors.
- We reviewed property tax administrative cost reports and recomputed administrative costs associated with work performed for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts.
- We reviewed ERAF reports and verified computations used to determine the shift of property taxes from local government agencies to the ERAF and, subsequently, to school and community college districts.
- We reviewed the Sales and Use Tax letter and verified Vehicle License Fee computations used to determine the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues.
- We reviewed the California State Board of Equalization's jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

Errors found were not projected to the intended (total) population.



We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Reimbursement of property tax administrative costs; and
- ERAF.

These instances of noncompliance are described in the Findings and Recommendations section.

## **Follow-up on Prior Audit Findings**

The county has satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2008, through June 30, 2015, issued on June 28, 2019. The implementation status of corrective actions is described in the Appendix.

## **Views of Responsible Officials**

We issued a draft audit report on December 31, 2024. The county's representative responded by letter dated January 21, 2025, agreeing with the audit results. The county's response is included as an attachment to this final audit report.

## **Restricted Use**

This report is solely for the information and use of the county, the Legislature, the California Department of Finance, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

February 28, 2025

# Findings and Recommendations

## **FINDING 1— Computation and distribution of property tax revenue**

During our testing of the county's computation and distribution of property tax revenue process, we found that the county incorrectly included aircraft properties' assessed values in its AB 8 increment calculation throughout the audit period. This error resulted in a misallocation of property tax revenues to all affected taxing entities. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented RTC sections 96.5 and 96.5(d), which provide the legal requirement for the computation and distribution of property tax revenue.

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and for apportioning and allocating property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment rolls and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA receives an increment based on its share of the incremental growth in assessed valuations. ATI is added to the tax computed for the prior fiscal year to develop apportionments for the current fiscal year.

In addition, RTC section 96.5(a)(2)(B) directs counties that did not exclude aircraft assessed values from the equalized assessment roll prior to FY 2022-23 to begin doing so in FY 2022-23.

### Recommendation

We recommend that the county:

- Review RTC sections 96.5 and 96.5(d), and update its procedures to exclude aircraft properties' assessed values from the computation and distribution of property tax revenue process;
- Recalculate its property tax revenues beginning in FY 2022-23; and
- Make monetary adjustments to all affected taxing entities, if the amounts are significant.

### County's Response

We agree with the finding that the County incorrectly included the unsecured aircraft assessed values in the AB 8 calculation for Property Tax Year 2022-23. We acknowledge that this error resulted in a misallocation of property tax revenues to all affected taxing entities.

### **Planned Corrective Actions**

To address this issue, we are taking the following steps:

1. Review and Adjust Calculations: We will conduct a thorough review of property tax increment calculations to ensure the exclusion of aircraft properties' assessed values in compliance with applicable regulations for Property Tax Year 2022-23 and make monetary adjustments to all affected taxing entities if the amounts are material.
2. Mono County will update its procedures to exclude aircraft properties' assessed values from the computation and distribution of property tax revenue.

**FINDING 2—  
Reimbursement of  
property tax  
administrative costs**

During our testing of the county's reimbursement of property tax administrative costs process, we found that throughout the audit period, the county incorrectly excluded unitary and operating nonunitary property tax revenues in its calculation of administrative cost apportionment factors. This error resulted in a misallocation of property tax revenues to all affected taxing entities. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because county staff members incorrectly implemented RTC section 95.3, which provides the legal requirements for property tax administrative costs.

The County Assessor, the County Tax Collector, the Assessment Appeals Board, and the Auditor-Controller incur administrative costs associated with the apportionment and allocation of property tax revenues. Applicable statutes allow the county to be reimbursed by local agencies for the aforementioned costs.

Recommendation

We recommend that the county review RTC section 95.3, and update its procedures to correctly include the unitary and operating nonunitary property tax revenues from the Reimbursement of Property Tax Administrative Costs process, on a going forward basis.

County's Response

Mono County works with a consultant to calculate the Property Tax Administrative costs. It is unknown currently what procedures are used by the consultant to capture unitary and nonunitary property tax revenues for reimbursement.

**Planned Corrective Action:** Mono County will review RTC section 95.3 and the Property Tax Mangers' Manual and work with the consultant to determine the procedures to correctly include the unitary and operating nonunitary property tax revenues from the reimbursement of Property Tax Administrative Costs on a going forward basis.

**FINDING 3—  
Educational Revenue  
Augmentation Fund**

During our testing of the county's ERAF process, we found that the county incorrectly calculated the ERAF shift throughout the audit period. This error resulted in a misallocation of property tax revenues to all affected taxing entities. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented

RTC sections 96.1 through 96.5 and 97 through 97.3, which provide the legal requirements for calculating the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code. The ERAF shift amount has been adjusted for growth every year since FY 1993-94.

#### Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3, and update its procedures to correctly calculate the ERAF shift;
- Recalculate its ERAF shift for the impacted fiscal years; and
- Make monetary adjustments to all affected taxing entities, if the amounts are significant.

#### County's Response

Upon further review, an Excel formula error was identified in the 2021-22 fiscal year, which impacted the ERAF growth calculations for the 2021-22 and 2022-23 fiscal years.

**Planned Corrective Action:** Mono County will address the Excel formula error for the 2021-22 fiscal year and revise the ERAF growth calculations for both the 2021-22 and 2022-23 fiscal years. If the adjustments result in material monetary impacts, the County will ensure that all affected taxing entities receive the appropriate corrections. Additionally, a comprehensive review of all fiscal years within the audit period will be conducted to identify and resolve any other potential formula errors that may have affected the ERAF growth calculations.

## Appendix— Summary of Prior Audit Findings

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The following table shows the implementation status of Mono County's corrective actions related to the findings contained in our prior audit report dated June 28, 2019.

<b>Prior Audit Finding</b>	<b>Status</b>
Finding 1— Annual Tax Increment Apportionment Factors	Fully implemented
Finding 2— Supplemental Apportionment Factors	Fully implemented
Finding 3— Unitary and Operating Nonunitary Apportionment Factors	Fully implemented
Finding 4— Vehicle License Fee Adjustment	Fully implemented

**Attachment—  
Mono County's Response to Draft Audit Report**

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**DEPARTMENT OF FINANCE  
AUDITOR-CONTROLLER  
COUNTY OF MONO**

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*Kim Burn*  
Assistant Finance Director  
Auditor-Controller

*Janet Dutcher, CPA, CGFM, MPA*  
Director of Finance

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1/21/2025

Lisa Kurokawa, Chief

Compliance Audits Bureau, Division of Audits, State Controller's Office

Post Office Box 942850

Sacramento, California 94250

**Subject:** Response to Audit Findings and Recommendations

Dear Ms. Kurokawa,

We appreciate the opportunity to review and respond to the audit findings and recommendations outlined in the report dated December 31, 2024. Below we address the accuracy of the findings, provide our perspectives on the conclusions and recommendations, and describe the corrective actions we plan to take.

We have reviewed the findings presented in the audit report.

- **FINDING 1:** Computation and distribution of property tax revenue.
  - **Response:** We agree with the finding that the County incorrectly included the unsecured aircraft assessed values in the AB 8 calculation for Property Tax Year 2022-23. We acknowledge that this error resulted in a misallocation of property tax revenues to all affected taxing entities.
  - **Planned Corrective Actions**  
To address this issue, we are taking the following steps:
    1. Review and Adjust Calculations: We will conduct a thorough review of property tax increment calculations to ensure the exclusion of aircraft properties' assessed values in compliance with applicable regulations for Property Tax Year 2022-23 and make monetary adjustments to all affected taxing entities if the amounts are material.
    2. Mono County will update its procedures to exclude aircraft properties' assessed values from the computation and distribution of property tax revenue.
  
- **FINDING 2:** Reimbursement of property tax administrative costs.
  - **Response:** Mono County works with a consultant to calculate the Property Tax Administrative costs. It is unknown currently what procedures are used by the consultant to capture unitary and nonunitary property tax revenues for reimbursement.



- **Planned Corrective Action:** Mono County will review RTC section 95.3 and the Property Tax Mangers' Manual and work with the consultant to determine the procedures to correctly include the unitary and operating nonunitary property tax revenues from the reimbursement of Property Tax Administrative Costs on a going forward basis.
  
- **FINDING 3: Educational Revenue Augmentation Fund**
  - **Response:** Upon further review, an Excel formula error was identified in the 2021-22 fiscal year, which impacted the ERAF growth calculations for the 2021-22 and 2022-23 fiscal years.
  - **Planned Corrective Action:** Mono County will address the Excel formula error for the 2021-22 fiscal year and revise the ERAF growth calculations for both the 2021-22 and 2022-23 fiscal years. If the adjustments result in material monetary impacts, the County will ensure that all affected taxing entities receive the appropriate corrections. Additionally, a comprehensive review of all fiscal years within the audit period will be conducted to identify and resolve any other potential formula errors that may have affected the ERAF growth calculations.

We appreciate the efforts of the audit team in identifying areas for improvement and are committed to addressing the issues raised. Please let us know if further information or clarification is required. We look forward to continuing to work collaboratively to strengthen our processes and compliance.

Sincerely,

Kimberly Bunn  
Assistant Finance Director  
Mono County Auditor-Controller Office





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