

TEHAMA COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2016, through June 30, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

October 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

October 24, 2024

The Honorable Krista Peterson, Auditor-Controller
Tehama County
444 Oak Street, Room J
Red Bluff, CA 96080

Dear Auditor-Controller Peterson:

The State Controller's Office audited Tehama County's process for apportioning and allocating property tax revenues for the period of July 1, 2016, through June 30, 2023. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that Tehama County incorrectly calculated the:

- Computation and distribution of property tax revenues; and
- Vehicle license fee adjustments.

If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Copy: Julieanne Manning, Assistant Auditor-Controller
Tehama County
The Honorable Bill Moule, Chairman
Tehama County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance

Contents

Audit Report

Summary	1
Background	1
Audit Authority	3
Objective, Scope, and Methodology	3
Conclusion	5
Follow-up on Prior Audit Findings	5
Views of Responsible Officials	5
Restricted Use	5
Schedule—Summary of Misallocations to the Educational Revenue Augmentation Fund	6
Findings and Recommendations	7
Appendix—Summary of Prior Audit Findings	A1
Attachment—County’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited Tehama County's (the county's) process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes for the period of July 1, 2016, through June 30, 2023.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that the county incorrectly calculated the:

- Computation and distribution of property tax revenues; and
- Vehicle license fee (VLF) adjustments.

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 Educational Revenue Augmentation Fund (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 (BOE).
- *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

The objective of our audit 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.

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 was 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.

The audit period was July 1, 2016, through June 30, 2023.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the county’s process 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 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 51 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 (see Finding 1).
- 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 computations used to develop supplemental property tax apportionment factors.
- We verified unitary and operating nonunitary and unitary regulated railway computations used to develop apportionment factors.
- We reviewed property tax administration 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 verified VLF computations used to determine the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues (see Finding 2).
- We reviewed the BOE 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 for the audit period. Specifically, we found that the county incorrectly calculated the:

- Computation and distribution of property tax revenues; and
- VLF adjustments.

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

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, 2009, through June 30, 2016, issued on June 7, 2017. The implementation status of corrective actions is described in the Appendix.

Views of Responsible Officials

We issued a draft audit report on July 23, 2024. The county's representative responded by letter dated August 2, 2024. The county agreed with the audit results, with the exception of the assessor-related aspect of Finding 1. The county's response is included as an attachment to this final audit report.

Restricted Use

This audit 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.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

October 24, 2024

Schedule—
Summary of Misallocations to the
Educational Revenue Augmentation Fund
July 1, 2016, through June 30, 2023

Finding Number	Fiscal Years Affected	Amount owed from the ERAF
2	FY 2016-17 and FY 2017-18	\$ (295,311)
Total		<u>\$ (295,311)</u>

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’s district and TRA maps were inconsistent when compared to those of the BOE throughout the audit period. Additionally, there were instances of TRA factors changing or being created in between fiscal years without any justification. These errors resulted in jurisdictions not knowing whether they received their fair shares of property tax revenue.

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.

Recommendation

We recommend that the county:

- Review RTC sections 96.5 and 96.5(d) and update its procedures to correct the inconsistencies found in the computation and distribution of property tax revenue process;
- Recalculate its property tax revenues for the impacted fiscal years; and
- Make monetary adjustments to school districts and the ERAF. Monetary adjustments to all other affected taxing entities will be necessary, if the error is significant.

County’s Response

This finding should be broken into two sections – one is directly related to the Auditor functions and the other is related to the Assessor functions.

Auditor Related Response

During the audit it was identified that TRA 096-001 values changed in 2018-19 and these were added to the increment. It was further noted that multiple jurisdictions were changed in 2021-22. We believe this was due to an audit performed by Hinderlighter de Llamas & Associates (HDL), but we are unable to locate backup & relevant correspondence. Because we are unable to locate backup documentation related to this change, we agree with this finding.

The calculations and values from 2018-2019 through 2022-23 are noted below:

FY	TRA	AV
16-17	96-001	
17-18	96-001	
18-19	96-001	12,461
19-20	96-001	12,535
20-21	96-001	13,883
21-22	96-001	14,700
22-23	96-001	14,573

Auditor Related Corrective Action

- We feel the assessed value difference on the increment is insignificant and immaterial when calculating the AB-8 growth factors for each year. Therefore, no recalculation or adjustments of property tax allocations going back to 2018-19 will be made.
- The county is updating procedures and correcting the inconsistencies found in the increment in 21-22.
- The change will be done and applied to the 2024-25 increment.

Assessor Related Response

It was noted during the audit that some TRA values had changed and were inconsistent with values at the BOE. The Auditor does not audit TRA values provided by the Assessor and accepts their certified valuation to assign values by TRA. The Assessor has an audit every three to six years, and TRA valuations would undoubtedly be part of that audit. Although we don't disagree that there were inconsistencies with values, we do feel that this finding is out of the scope of Auditor duties.

During the audit, our staff reached out to the Assessor and was unable to get an immediate response related to the change in values by TRA. The Assessor is new and the staff member who made the value changes has retired. Unfortunately, records of the changes were not readily available during the audit.

To further clarify the separation of roles/functions performed by Auditor and Assessor we offer the following:

- 1) The Assessor's office categorizes the certification of assessed values each year by tax rate areas and provides this report to the Auditor after roll close. Zero value tax rate areas can be on that list. This can happen for a multitude of reasons such as exempt properties, State Board of Equalization properties, low value properties, etc.
- 2) The Assessor works with the State Board of Equalization to create, assign and map Tax Rate Areas. The Assessor's office maintains an Assessor Parcel Map which contains Assessor Parcel Numbers that help identify the property that is being taxed. The parcel numbers are assigned a tax rate area, that once mapped, should reflect the BOE managed TRA maps. The findings/recommendations note inconsistencies between county district and TRA maps (assuming Assessor Maps) and the BOE Maps. A function of the Assessor's office being called out seems inappropriate in an Audit or Property Tax functions related to the Auditor.

Assessor Related Corrective Action

The Assessor has reviewed the annual State Board of Equalization Valid Tax Rate Area numbers report for each of the audit years and found no discrepancies. A review of the maps is a much larger task, as there are around 164 tax rate areas which in turn have individual maps. While the maps may be similar year to year, they would need to review them all to identify any inconsistencies. This would equate to around 1,148 individual maps. Given the magnitude of the task, the Assessor cannot guarantee that all maps are correct at this time. He has done a spot check of some of the maps and has found no inconsistencies.

Going forward the Assessor will coordinate with the BOE to do a deep dive into communications over the past regarding value changes. At this

point, they cannot say that maps are correct, or incorrect in total. However, the Assessor has never received complaints or notifications from the BOE regarding errors or inconsistencies.

Annually, the Assessor's office will provide a brief explanation for TRA's that have zero value in their certification report.

The Assessor's office will also communicate with the Auditor when Tax Rate Areas associated with Assessor Parcel Numbers are changed, added, or deleted.

**FINDING 2—
Vehicle License Fee
Adjustments**

During our testing of the county's VLF adjustments process, we found that the county had incorrectly distributed the VLF revenue for FY 2016-17 and FY 2017-18. The VLF revenue distributed by the county did not agree with their calculated amounts. This error resulted in a total overallocation of property tax revenues to the ERAF of \$295,311 (see the Schedule): (\$236,949) from the county, (\$20,326) from the City of Corning, (\$35,861) from the City of Red Bluff, and (\$2,175) from the City of Tehama.

The error occurred because county staff members incorrectly implemented RTC section 97.70, which provides the legal requirements for VLF adjustments. The VLF permanently provided additional property tax revenues to cities and counties in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC section 97.70 and update its procedures;
- Adjust the VLF revenue distributed in FY 2016-17 and FY 2017-18 to reflect the calculated amounts; and
- Make monetary adjustments to the ERAF, its general fund, and the Cities of Corning, Red Bluff, and Tehama.

County's Response

During the audit it was noted that VLF calculations for 2016-17 & 2017-18 were incorrect. However, also during the audit, it was discovered that those corrections had, in fact, been made by the Property Tax Accountant. The corrected schedules were provided to the Auditor-Controller. The corrected schedules were filed away with a note attached stating, "Correct in January 2019". Unfortunately, that note must have been overlooked and the journals/distributions were never made.

Corrective Action

Necessary corrections/adjustments have been made and distributions to the County, City of Red Bluff, City of Corning and City of Tehama were made in April 2024.

Appendix— Summary of Prior Audit Findings

The following table shows the implementation status of Tehama County's corrective actions related to the findings contained in our prior audit report dated June 7, 2017:

Prior Audit Finding Number	Prior Audit Finding Title	Implementation Status
1	Unitary and Operating Nonunitary Apportionment	Fully implemented
2	Regulated Railway Apportionment	Fully implemented
3	Educational Revenue Augmentation Fund	Fully implemented
4	Vehicle Licensing Fee and Sales and Use Tax Adjustments	Fully implemented

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

KRISTA PETERSON
Auditor-Controller



JULIEANNE MANNING
Assistant Auditor-Controller

TEHAMA COUNTY AUDITOR-CONTROLLER

08/02/2024

RE: Tehama County Responses to Findings per letter dated July 23, 2024

FINDING 1

Computation and Distribution of Property Tax Revenue

Recommendation

- Review RTC sections 96.5 & 96.5 (d) and update its procedures to correct the inconsistencies found in the computation and distribution of property tax revenue process.
- Recalculate its property tax revenues for the impacted fiscal years.
- Make monetary adjustments to school districts and the ERAF. Monetary adjustments to all other affected taxing entities will be necessary if the error is significant.

Response

This finding should be broken into two sections – one is directly related to the Auditor functions and the other is related to the Assessor functions.

Auditor Related Response

During the audit it was identified that TRA 096-001 values changed in 2018-19 and these were added to the increment. It was further noted that multiple jurisdictions were changed in 2021-22. We believe this was due to an audit performed by Hinderlighter de Llamas & Associates (HDL), but we are unable to locate backup & relevant correspondence. Because we are unable to locate backup documentation related to this change, we agree with this finding.

The calculations and values from 2018-2019 through 2022-23 are noted below:

FY	TRA	AV
16-17	96-001	
17-18	96-001	
18-19	96-001	12,461
19-20	96-001	12,535
20-21	96-001	13,883
21-22	96-001	14,700
22-23	96-001	14,573

Auditor Related Corrective Action

- We feel the assessed value difference on the increment is insignificant and immaterial when calculating the AB-8 growth factors for each year. Therefore, no recalculation or adjustments of property tax allocations going back to 2018-19 will be made.
- The county is updating procedures and correcting the inconsistencies found in the increment in 21-22.
- The change will be done and applied to the 2024-25 increment.

Assessor Related Response

It was noted during the audit that some TRA values had changed and were inconsistent with values at the BOE. The Auditor does not audit TRA values provided by the Assessor and accepts their certified valuation to assign values by TRA. The Assessor has an audit every three to six years, and TRA valuations would undoubtedly be part of that audit. Although we don't disagree that there were inconsistencies with values, we do feel that this finding is out of the scope of Auditor duties.

During the audit, our staff reached out to the Assessor and was unable to get an immediate response related to the change in values by TRA. The Assessor is new and the staff member who made the value changes has retired. Unfortunately, records of the changes were not readily available during the audit.

To further clarify the separation of roles/functions performed by Auditor and Assessor we offer the following:

- 1) The Assessor's office categorizes the certification of assessed values each year by tax rate areas and provides this report to the Auditor after roll close. Zero value tax rate areas can be on that list. This can happen for a multitude of reasons such as exempt properties, State Board of Equalization properties, low value properties, etc.
- 2) The Assessor works with the State Board of Equalization to create, assign and map Tax Rate Areas. The Assessor's office maintains an Assessor Parcel Map which contains Assessor Parcel Numbers that help identify the property that is being taxed. The parcel numbers are assigned a tax rate area, that once mapped, should reflect the BOE managed TRA maps. The findings/recommendations note inconsistencies between county district and TRA maps (assuming Assessor Maps) and the BOE Maps. A function of the Assessor's office being called out seems inappropriate in an Audit or Property Tax functions related to the Auditor.

Assessor Related Corrective Action

The Assessor has reviewed the annual State Board of Equalization Valid Tax Rate Area numbers report for each of the audit years and found no discrepancies. A review of the maps is a much larger task, as there are around 164 tax rate areas which in turn have individual maps. While the maps may be similar year to year, they would need to review them all to identify any inconsistencies. This would equate to around 1,148 individual maps. Given the magnitude of the task, the Assessor cannot guarantee that all maps are correct at this time. He has done a spot check of some of the maps and has found no inconsistencies.

Going forward the Assessor will coordinate with the BOE to do a deep dive into communications over the past regarding value changes. At this point, they cannot say that maps are correct, or incorrect in total. However, the Assessor has never received complaints or notifications from the BOE regarding errors or inconsistencies.

Annually, the Assessor's office will provide a brief explanation for TRA's that have zero value in their certification report.

The Assessor's office will also communicate with the Auditor when Tax Rate Areas associated with Assessor Parcel Numbers are changed, added, or deleted.

FINDING 2

Vehicle License Fee Adjustments

Recommendation

- Review RTC section 97.70 and update its procedures.
- Adjust the VLF revenue distribution in FY 2016-17 and FY 2017-18 to reflect the calculated amounts.
- Make monetary adjustments to the ERAF, its general fund, and Cities of Corning, Red Bluff and Tehama.

Response

During the audit it was noted that VLF calculations for 2016-17 & 2017-18 were incorrect. However, also during the audit, it was discovered that those corrections had, in fact, been made by the Property Tax Accountant. The corrected schedules were provided to the Auditor-Controller. The corrected schedules were filed away with a note attached stating, "Correct in January 2019". Unfortunately, that note must have been overlooked and the journals/distributions were never made.

Corrective Action

Necessary corrections/adjustments have been made and distributions to the County, City of Red Bluff, City of Corning and City of Tehama were made in April 2024.

A handwritten signature in blue ink that reads "Krista Peterson". The signature is written in a cursive, flowing style.

Krista Peterson

Tehama County Auditor-Controller

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

www.sco.ca.gov