

***Property Tax Revenue Performance Audit:
The Financial Management Department Has
Appropriate Measures in Place to Receive and
Record Property Tax Revenue Owed to the City***



Independence you can rely on

April 2024

Laura L. Doud
City Auditor



Property Tax Revenue Performance Audit

April 2024



Why This Audit Is Important

Property tax revenue is the largest source of revenue for the City's General Fund. It helps to fund Citywide services such as public safety, street maintenance, parks, recreation, and library services.

The Financial Management Department is responsible for the receipt and recording of property tax revenue for the City. Over a span of 10 years, the City has reported property tax revenue totaling over \$2 billion.

We examined over \$1.3 billion in property tax revenue.

Observations

We noted the following:



Proportional Revenue Growth

Property assessed value and property tax revenue grew at proportional rates indicating that the City's share of revenue is growing as expected.



Strong Oversight

The Department's oversight practices include segregation of duties, reconciliations, contracting with a consultant, and monitoring.

What We Recommend

We found that the following can be improved:



Update Policies & Contract

The City needs to update details in its policies and its contract with the consultant to prevent overreliance on employee knowledge.



Use Additional Services

At no extra cost, the City can receive an additional property tax report that serves as another layer to evaluate property tax revenue received.

What Happens Next



We provided the Department with one finding and three recommendations to strengthen processes around the receipt and recording of property tax revenue owed to the City. The Department agreed to all the recommendations.



Table of Contents

Report Summary	1
I. Background	2
The property tax revenue allocated to the City of Long Beach (City) is significant and essential to fund operations and services for its residents.	2
The property tax process has multiple layers of oversight and responsibility and spans across different entities.	2
The property tax revenue related to the City’s Successor Agency follows restrictive distribution guidelines.....	4
The City’s Annual Comprehensive Financial Report (ACFR) includes property tax revenue composed of various categories.....	4
II. Observations	6
Observation #1: <i>The City’s property tax revenue is growing at a comparable rate to the assessed value of property.</i>	6
Observation #2: <i>The City has strong internal controls over property tax revenue.</i> ...	8
III. Findings & Recommendations	9
Finding #1: <i>Financial Management’s policies, procedures, and contract with its tax consultant, HdLCC, require updating. There is an opportunity to receive an additional service from HdLCC at no extra cost.</i>	9
III. Objective, Scope, and Methodology	11
IV. Management Response.....	13



LAURA DOUD

Report Summary

Property Tax Revenue Performance Audit: The Financial Management Department Has Appropriate Measures in Place to Receive and Record Property Tax Revenue Owed to the City

April 2024

Why This Audit Is Important

Property tax revenue is the largest source of revenue for the City of Long Beach's (City) General Fund, helping to fund citywide services such as public safety, public works, parks, recreation, and library services. From fiscal years 2012 through 2021, the City's Annual Comprehensive Financial Report (ACFR) has reported property tax revenues totaling over \$2 billion, and our audit focused on examining over \$1.3 billion of those revenues. The Financial Management Department (Financial Management) is responsible for the collection and recording of the property tax revenue allocated to the City.

Audit Objective

The objective of this audit was to determine whether the City has appropriate controls over the process of receiving and recording property tax revenue and whether the City is effectively identifying and receiving property tax revenues owed.

Acknowledgement

We thank management and staff in Financial Management and Community Development for their collaboration, assistance, and cooperation during this audit.

What We Found

Responsibilities over property tax revenue mostly rely on the jurisdiction of L.A. County. Despite its limited role, Financial Management has been able to develop policies and procedures that include strong controls such as:

- implementing segregation of duties,
- monitoring property tax revenue, and
- contracting a third-party consultant (HdLCC) to further monitor and analyze property tax factors and revenue.

We found that property tax revenue in the City has been growing at approximately the same rate as the increase in property assessed values. While Financial Management does have comprehensive policies and procedures, these documents require minimal updates to reflect organizational changes and added safeguards followed in practice. Additionally, we found that the City's contract, with its third-party consultant, was missing detailed language specific to the scope and conditions.

What We Recommend

We recommend that Financial Management continue to maintain best practices over the property tax revenue process. Financial Management has strong internal controls and a functional policy structure on the processes of receiving and recording property tax revenue. However, the documented policies and procedures are outdated, and Financial Management should revise the policies to reflect current practices to avoid an overreliance on institutional knowledge. Additionally, Financial Management should utilize the third-party consultant's service to review property tax receipts at no extra cost to the City.

Recommendations include:

- updating policies and procedures, and
- maximizing consultant services.



I. Background

The property tax revenue allocated to the City of Long Beach (City) is significant and essential to fund operations and services for its residents.

According to the Annual Comprehensive Financial Report, property tax is the largest source of revenue for the City's General Fund.

The Annual Comprehensive Financial Report (ACFR) is an externally audited financial report that provides the public, investors, and other stakeholders with a complete and accurate financial analysis of a government entity's financial health and performance. According to the City of Long Beach's (City's) ACFR for fiscal year 2022, property tax revenue is the largest revenue source for the General Fund, contributing to over 29% of its total revenue.

The Financial Management Department (Financial Management) is responsible for the collection and recording of revenue for the City, as reflected in the ACFR. Property tax revenue is significant to fund critical City services in the areas of public safety, public works, parks, recreation, and library services. Therefore, strict procedures and monitoring over property tax receipts are key to ensure that revenues are deposited in full and on a timely basis to help the City meet its responsibilities and address the needs of its residents.

The property tax process has multiple layers of oversight and responsibility and spans across different entities.

The process over property tax is performed by the following entities:

L.A. County Assessor – From January 1 to June 30 of every year, the L.A. County Assessor's office evaluates the taxable assessed value of property and applies the appropriate adjustments as well as any exemptions to value. Examples of adjustments and exemptions include situations where property is used for religious, hospital, or charitable purposes, or property damaged by a disaster. It is important to note that the taxpayer is responsible for submitting the appropriate forms to the L.A. County Assessor to be considered for an exemption. The assessed value is added on a list with all other properties in L.A. County and this is known as the "Assessment Roll". At the end of the period, the L.A. County Assessor closes the assessment roll and provides the information to the L.A. County Auditor Controller for further review.

L.A. County Auditor Controller – The L.A. County Auditor's office receives the assessment roll on July 1st and applies the taxing percentages and direct assessments which includes the general 1% tax levy (the largest component of most property tax bills and the revenue focus of our audit), voter approved debt, and other property specific charges.

L.A. County Treasurer and Tax Collector – The L.A. County Treasurer's office receives the roll on August 31st and sends tax bills to property owners in September.

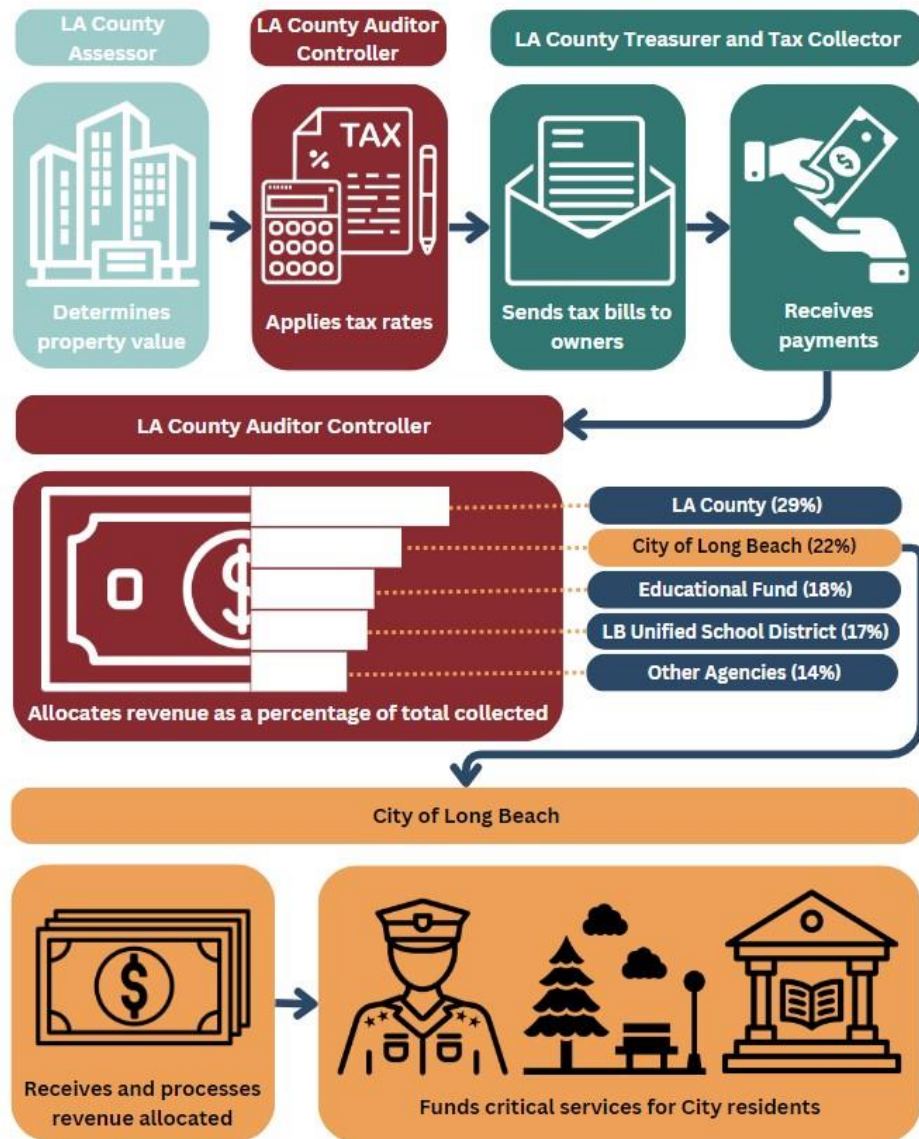
The property owners make payments for their tax bills directly to the L.A. County Treasurer and Tax Collector. Then, the funds are transferred to the L.A.

On average, the City receives a 22% share of property taxes paid by property owners in non-redevelopment designated areas of the City.

County Auditor Controller who allocates revenue to taxing entities during the months of November and August of the following year. The L.A. County Auditor Controller distributes the funds collected from the 1% tax levy as a shared revenue source for multiple local governments and taxing agencies (including the City). Property tax revenue allocated is not traced by each individual parcel but as a percentage of the total collected by L.A. County. On average, the City receives a 22% share of the property taxes paid by property owners in non-redevelopment designated areas of the City.

This process is detailed in Figure 1 below.

Figure 1.
The City’s role over property tax is limited to receiving its percentage share of revenue from L.A. County.



The property tax revenue related to the City’s Successor Agency follows restrictive distribution guidelines.

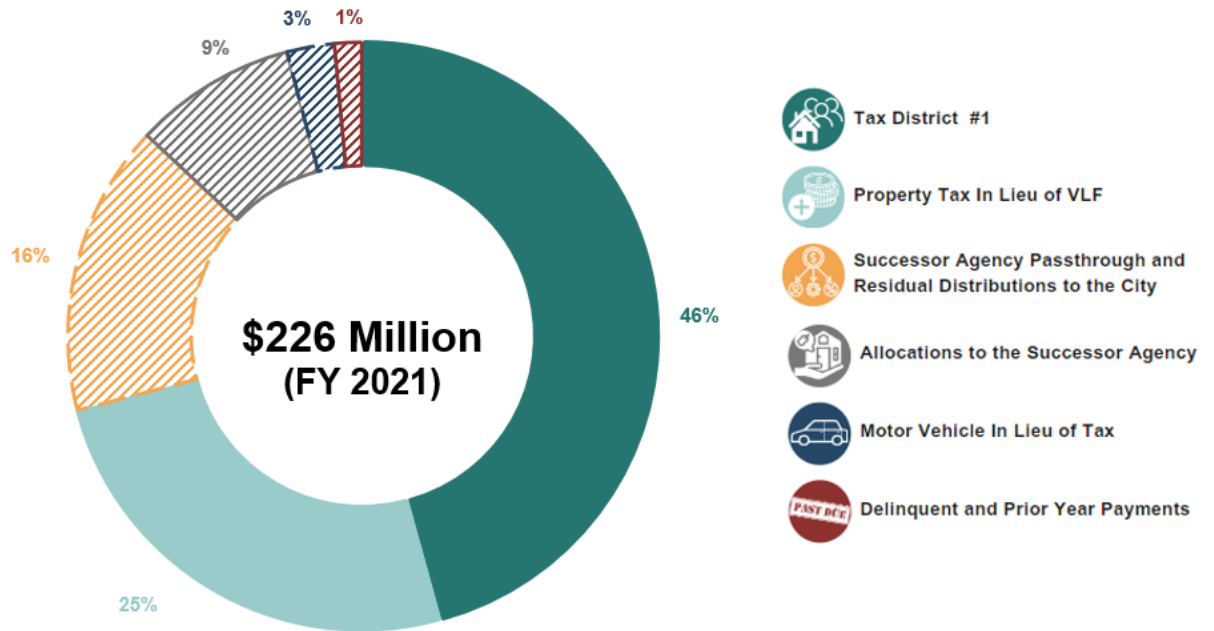
The City’s Successor Agency was established to replace the City’s former Redevelopment Agency (RDA) after the State mandated its dissolution in December 2011. In the past, the RDA had the power to buy property, issue bonds and collect property tax revenue for development. The current Successor Agency has the responsibility of winding down all RDA operations, which include fulfilling enforceable obligations, debt service payments, and disposal of non-housing property and assets.

Per State law, the property tax revenue associated with the Successor Agency is allocated between the County Auditor, local cities, school district entities, and the Successor Agency. Furthermore, the allocations of property tax revenue to the Successor Agency are limited to only covering administrative costs, operations, debt, and disposition of assets. Additionally, in some cases property owned by the Successor Agency does not generate property tax because it is considered owned by a public agency.

The City’s Annual Comprehensive Financial Report (ACFR) includes property tax revenue composed of various categories.

Under the ACFR’s Statement of Revenues, the City includes property tax as a combined value from secured property, unsecured property, delinquent taxes, pass-through payments, property tax in lieu of Vehicle License Fees, Motor Vehicle in lieu of Tax and allocations to the City’s Successor Agency, formerly known as Redevelopment Agency (further discussed below). Due to the variety of factors accounted for in the ACFR, many of which are not directly related to property valuations, we conducted a narrowed analysis.

Figure 2.
Property Tax Revenue for Fiscal Year 2021
Breakdown by Category



Solid color categories represent property tax revenue included in this audit, totaling 71% of property tax revenue reported for FY 2021

What is included in our audit?

The City’s Tax District #1: this category includes the City’s share of the 1% general tax levy applied against property assessed value and has the largest impact on the property tax revenue deposited to the General Fund. On average, this category accounted for 44% of the total property tax revenue reported on the ACFR and represented 46% for fiscal year 2021.

Property Tax in lieu of Vehicle License Fees: this category is an additional portion of property tax revenue that is calculated each year based on the growth in assessed property value for the City of Long Beach. On average, this category accounted for 23% of the total property tax revenue reported on the ACFR and represented 25% for fiscal year 2021.

We selected the categories above because they have the most financial impact on property tax revenue reported in the ACFR and the tax revenue is based on the property assessed value. On average, these two categories represented 69% of the total property tax revenue reported, and represented 71% for fiscal year 2021, as shown in Figure 2 above.

In total, the City collected revenue of over 1.3 billion for Tax District #1 and property tax in lieu of Vehicle License Fees. Since both of these revenue types are calculated using property assessed value, we examined these revenues to

identify whether property assessed values and revenues were growing proportionately.

What is excluded from our audit?

Successor Agency Passthrough and Residual Distributions: payments to the City that were negotiated prior to the dissolution of the Redevelopment Agency as well as the City's share of any residual revenues after the Successor Agency allocations have been distributed. This is excluded from the audit due to a different property tax revenue payout formula which incorporates previously negotiated obligations and fluctuating residual amounts.

Successor Agency Allocations: payments to the Successor Agency that are restricted to specific spending criteria such as administrative expenses and costs to wind down operations.

Motor Vehicle in Lieu of Tax: this is a state imposed and collected tax on ownership of registered vehicles that derives its calculation from the market value of vehicles, instead of property assessed value.

Delinquent and Prior Year Payments: Due to the uncertainty around late property tax payments and the fact that it has minimal impact on overall property tax revenue, we excluded this category from our analysis.

II. Observations

Observation #1: *The City's property tax revenue is growing at a comparable rate to the assessed value of property.*

Per California law, property tax revenue depends on the value of property, and is therefore expected to grow at a comparable rate. If the growth rates are widely different, this could indicate a potential error in property tax revenue received.

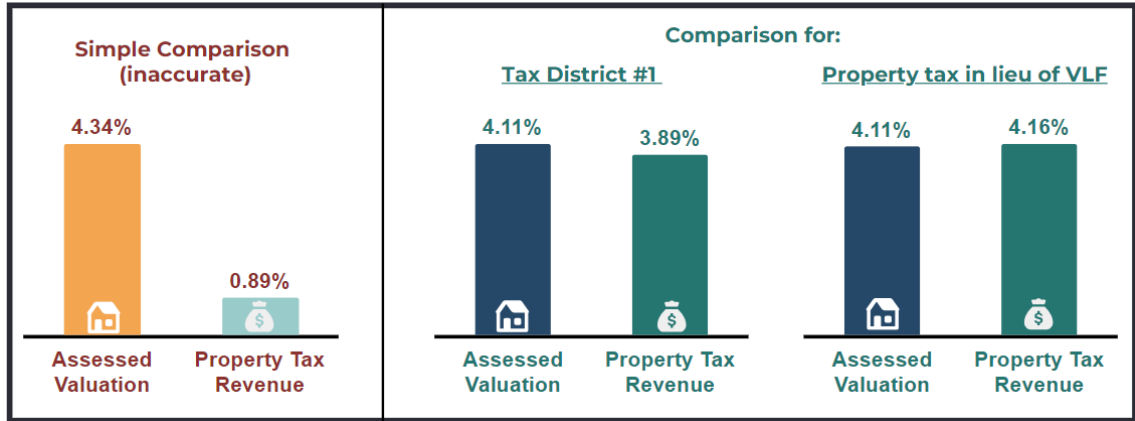
When comparing growth for property assessed value and property tax revenue, a simple analysis can be drawn using the assessed valuation from the LA County Assessor's website against the property tax revenue reported on the City's ACFR. However, such comparison would result in growth rates that are widely different because the ACFR includes different categories, such as Successor Agency Passthrough and Allocations, that do not all follow the normal revenue allocation method. Over a 10-year period, this simple method shows the average annual growth of property assessed value was almost four times higher than the average annual growth in property tax revenue.

To create a more accurate comparison, our audit utilized the City's internal financial system to determine the specific revenue in the largest property tax categories; Tax District #1 and property tax in lieu of Vehicle License Fees (in lieu of fees) and excluding Successor Agency related revenue. To determine the growth of property assessed values, we utilized third-party consultant

property tax reports provided to the City. These reports are more exact as they exclude Successor Agency related property, and the values are sourced from LA County’s assessment rolls.

We found that over a 10-year period, the property tax revenue received by the City and the assessed value growth recorded were proportional to each other, as shown on Figure 3 below.

Figure 3.
10-year average annual growth analyses show that a simple comparison of assessed valuation and property tax revenue is not accurate.



Analysis of Tax District #1

Property tax revenue for Tax District #1 includes revenue for secured property (land, building, homes), unsecured property (boats, aircraft, etc.), and reimbursement of homeowner property tax reliefs that were granted by the State. From Fiscal Years 2012 to 2021 (10 years), the average annual growth percentage for property assessed value was 4.11%, while the property tax revenue grew at 3.89% for Tax District #1.

Analysis of Property Tax in lieu of Fees (in lieu of fees)

Per State legislation, this additional portion of property tax revenue is calculated each year based on the growth in gross property assessed valuation for the City.

Our audit analyzed the relationship between the gross property assessed value for the entire City against the in lieu of fees deposited to the General Fund. We found that from Fiscal Years 2012 to 2021 (10 years), the average annual growth percentage for assessed value of property in the City was 4.11%, and in lieu of fees grew at 4.16%.

We found that the City’s assessed valuation and property tax revenue are growing at a comparable rate.

Overall, the assessed value of property within the City and the property tax revenue received are growing at a comparable rate.

Our analysis found that the City’s property tax revenue is growing proportionally to property assessed valuation.

While the growth rates are not exact, an identical growth rate was not expected due to a 12-to-18-month lag between assessment valuation and allocation of property tax revenue, and other timing delays caused by taxpayer refunds and appeals. The close growth percentages when focusing the analysis on non-Successor Agency revenue show that the value of property in the City and the related property tax revenue are both growing at a comparable rate.

Observation #2: *The City has strong internal controls over property tax revenue.*

The City’s role is limited to receiving property tax revenue from L.A. County as property owners directly pay property tax payments to L.A. County. However, the City should follow best practices to ensure that these funds are properly monitored and safeguarded. Our audit found that the City practices strong internal controls such as segregation of duties, revenue reconciliations, contracting a third-party consultant to analyze factors affecting property tax, and conducting processes to review the reasonableness of revenue received from L.A. County.

Segregation of duties is essential for revenue management to reduce the possibility of theft and fraud. Financial Management’s policies and procedures incorporate this safeguard by splitting responsibilities over the receipt, confirmation, and reconciliations of property tax revenue between the Treasury Bureau and the Accounting Bureau staff.

Reconciliations of the City’s bank accounts are completed on a monthly and yearly basis to ensure that all payments, including property tax revenue, are properly recorded. These reconciliations are available on the City’s financial reporting systems along with backup documentation of L.A. County payments. These procedures and strict guidelines promote transparent recordkeeping and allow the City to effectively keep track of property tax revenue.

The City has contracted a third-party consultant, HdL Coren & Cone (HdLCC), to provide professional services to further monitor and analyze property tax factors and revenue. HdLCC has been under contract with the City since 2001 and is recognized as an industry leader in providing property tax services serving over 260 public agencies in California. As part of these professional services, the City receives:

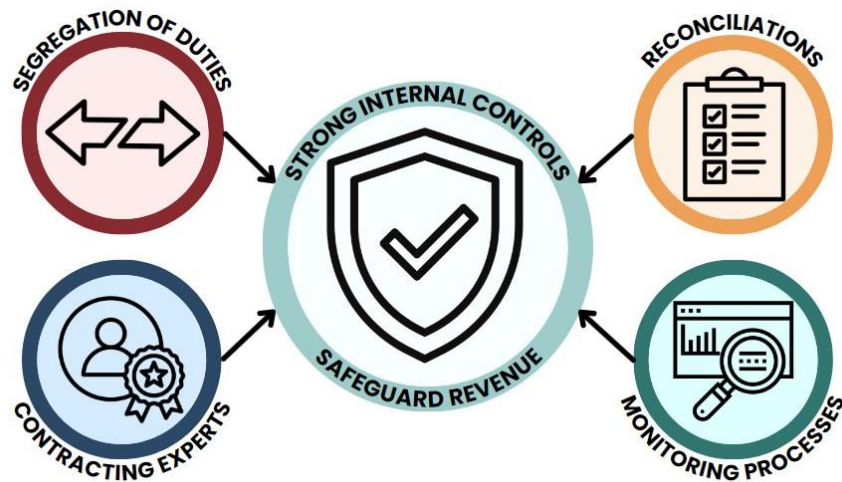
- Annual property tax reports that include analysis of the City’s growth, valuation summaries for property in the City, significant shifts in top taxpayers’ property, estimated revenue, etc.;
- Summary reports comparing prior year expectations and assessment of impactful events causing variances;
- Access to specialized software developed that includes property details, history, appeals, and sales which can be used to answer specific inquires; and
- Continuous auditing for property tax misallocations. HdLCC handles all communications with L.A. County and over a 10-year period has

The City’s tax consultant, HdLCC, identified over \$380,000 in estimated revenue for the City through their continuous audits.

identified misallocations with an estimated revenue of over \$380,000 for the City.

The City also consults with HdLCC to verify the reasonableness of revenue received and to determine variances in property tax revenue received versus revenues originally projected. Financial Management documents their assessment of property tax revenue in two public documents – Budget Performance Reports (semi-annual basis) and within the ACFR under the Statement of Revenues with a budget to actual analysis and in the City’s portion for Management’s Discussion and Analysis. We were able to verify that material property tax variances were noted in these documents when comparing the forecasted revenues versus actuals.

Figure 4.
Financial Management has implemented strong internal controls to safeguard property tax revenue allocated to the City.



III. Findings & Recommendations

Finding #1: *Financial Management’s policies, procedures, and contract with its tax consultant, HdLCC, require updating. There is an opportunity to receive an additional service from HdLCC at no extra cost.*

Financial Management’s written policies over Property Tax Revenue processes were last revised in 2008 and require updates to reflect the current order of responsibilities that each bureau follows today. Although Financial Management is following best practices for the recording and receiving of property tax revenue from L.A. County, the policies and procedures do not reflect the current order of operation and duties between the Treasury and Accounting Bureaus.

Additionally, the policies and procedures do not describe current monitoring best practices performed by Financial Management, such as annual meetings with HdLCC to review factors affecting property tax. Mid-year and year-end performance reports are presented to the City Council comparing property tax revenue actuals to initial budget projections; however, this is not detailed in the policies and procedures. Revised policies and procedures will help to protect against overreliance on institutional knowledge and reinforce existing best practices to ensure that all employees are aware of appropriate steps when carrying out job responsibilities.

HdLCC also provides a service to other local government clients, known as the “Receipts to Levy” report, at no extra cost. This report compares L.A County’s allocated property tax amount owed to the City with the actual deposits received and can be used to evaluate delinquency factors. The Financial Management’s Budget Bureau, with minimal staff resources, can find value in this report as another layer of oversight and review to determine the reasonableness of revenue received from L.A. County. While Financial Management had previously taken advantage of this HdLCC offering, the City has not utilized this service in recent years. This service can be included at no extra cost and requires minimal staff involvement.

Our audit also identified insufficient contracting language between the City and HdLCC. As a result, HdLCC was unable to obtain and provide to the City the required insurance documentation. Upon further discussion with Financial Management, we learned that revisions to the contract are in progress.

Recommendations for Financial Management

- 1.1 Update policies and procedures to identify responsibilities among bureaus and detail Financial Management’s monitoring controls that are currently in practice.**
- 1.2 Update the City’s contract with its property tax consultant, HdLCC, to reflect the scope and conditions agreed upon in the most current contract.**
- 1.3 Utilize HdLCC’s “Receipts to Levy” report on a semi-annual basis as an additional layer of oversight to evaluate delinquency factors and the reasonableness of revenues received.**

III. Objective, Scope, and Methodology

The objective of this audit was to determine whether the City has appropriate controls over the process of receiving and recording property tax revenue and whether the City is effectively identifying and receiving property tax revenues owed.

The scope of the audit includes all records and oversight operations of Financial Management related to property tax revenue receipts during 2012 fiscal year to 2021 fiscal year, Oct 1, 2011 – Sep 30, 2021.

To achieve this objective, we:

- Interviewed Community Development staff to understand the building permit process and role of the Successor Agency and its relation to property tax revenue;
- Tested Community Development database accessibility for L.A. County staff to review building permit submissions;
- Reviewed Financial Management's policies and procedures regarding property tax revenue processes;
- Reviewed county information and state legislation on the property tax process;
- Reviewed the City's contract with HdLCC and HdLCC's audit results on behalf of the City from FY 2012-2021;
- Interviewed staff from Financial Management to obtain an understanding of the City's internal controls over property tax;
- Interviewed the City's property tax consultant to discuss factors that affect property tax revenue;
- Analyzed the historical trend between City's property tax revenue and assessed property value to determine if it was growing at a proportionate rate. This includes an analysis of the 5-, 7-, and 10-year annualized growth percentage for assessed valuation and property tax revenue associated with Tax District #1;
- Analyzed the historical trend between City's property tax in lieu of Vehicle License Fees and gross assessed property value to determine if it was growing at a proportionate rate. This includes an analysis of the 5-, 7-, and 10-year annualized growth percentage;
- Evaluated the internal controls established by the City over the receipt of property tax revenue;

- Conducted test work to assess whether the City's processes over property tax revenue are working as intended and resulting in reasonably accurate revenue receipts.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

IV. Management Response

MANAGEMENT RESPONSE AND ACTION PLAN

Financial Management

Property Tax Revenue Performance Audit

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Update policies and procedures to identify responsibilities among bureaus and detail Financial Management’s monitoring controls that are currently in practice.	M	10	Agree- with revision to timeframe for implementation	Financial Management	Financial Management is in the process of updating accounting procedures that will involve documenting financial processes of major tax revenues, which includes property tax revenues. The updated procedures will reflect current practices, internal controls, and related responsibilities of the bureaus.	January 2025
1.2	Update the City’s contract with its property tax consultant, HdLCC, to reflect the scope and conditions agreed upon in the most current contract.	M	10	Agree	Financial Management	As of September 2023, the contact language was updated to reflect current scope and conditions as cited in RFP FM-23-227. Since then, the contract has been in effect with no interruption to the consultant's services.	Completed
1.3	Utilize HdLCC’s “Receipts to Levy” report on a semi-annual basis as an additional layer of oversight to evaluate delinquency factors and the reasonableness of revenues received.	M	10	Agree- with revision to timeframe for implementation	Financial Management	Staff will request that HdLCC perform an annual "receipts to levy" analysis to evaluate prior year performance and more specifically delinquency factors impacting performance. In regards to timing, due to the complexity of the analysis, an annual review is recommended at this time as it will be based on annual remittance advice information and revenue collection. Staff will engage HdLCC to evaluate the most appropriate timeframe for review, but will request that this analysis is added to materials reviewed during the City's annual property tax analysis and projection presentation by the consultant taking place in the Fall of each year.	Fall 2024

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Yellow areas - to be completed by the department



Long Beach City Auditor's Office

411 W. Ocean Blvd., 8th Floor

Long Beach, CA 90802

Telephone: 562-570-6751

Fax: 562-570-6167

Email: Auditor@longbeach.gov

Website: CityAuditorLauraDoud.com

MyAuditor App available at the [App Store](#) or [Google Play](#)

Follow Us:

Facebook: [@LBCityAuditor](#)

Instagram: [@LBCityAuditor](#)

X : [@LBCityAuditor](#)

CITY AUDITOR'S FRAUD HOTLINE: 1-888-FRAUD-07
