Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
AUDITOR GENERAL

500 GRISWOLD STREET
STE. 842 GUARDIAN BLDG
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

September 17, 2021

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commission:

Enclosed is our final copy of the Office of Legislative Auditor General's Performance Audit Report on the Wayne County Treasurer's Office - Forfeiture, Foreclosure and Auction Process. Our report is dated June 25, 2021; DAP No. 2019-57-002. The contents of this report did not change from the report previously issued. The report was accepted by the Committee on Audit at its meeting held on September 8, 2021 and formally received by the Wayne County Commission on September 16, 2021.

We are pleased to inform you that officials from the Wayne County Treasurer's Office provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: https://www.waynecounty.com/elected/commission/oag/legislative-auditor.aspx.

Sincerely,

Marcella Cora

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Wayne County Treasurer's Office
Honorable Eric R. Sabree, Wayne County Treasurer
Jean-Vierre Adams, Chief Deputy Treasurer
James Berry, Deputy Treasurer of Forfeiture & Foreclosure
Lashonda Thomas, Deputy Treasurer of Financial Services
Ramesh Renati, Director of Information Systems

Department of Management & Budget
Hughey Newsome, Chief Financial Officer
Yogesh Gusani, Deputy Chief Financial Officer
Shauntika Bullard, Director, Grants and Contract Management

Wayne County Executive

County of Wayne, Michigan

Wayne County Treasurer's Office

FORFEITURE/FORECLOSURE/ AUCTION PROCESS

Performance Audit

June 25, 2021 – (Revised)

DAP No. 2019-57-002

EXECUTIVE SUMMARY

Type of Engagement, Scope, and Methodology

At the request of the Wayne County Commission, the Office of Legislative Auditor General conducted a performance audit of the Wayne County Treasurer's Office Forfeiture/Foreclosure Tax Reversion Process. This type of engagement provides an objective analysis to assist management and those charged with governance and oversight. The information provided can help improve controls and processes by parties with responsibility to oversee or initiate corrective action and contribute to public accountability.

Our objectives for this engagement were to: 1) Assess compliance with rules, regulations, state laws and county ordinances; and, 2) Assess the effectiveness of controls over the Treasurer's Forfeiture/Foreclosure and Auction Process.

The fieldwork was substantially completed on April 29, 2021, and the scope of our engagement was fiscal year 2017 through January 31, 2019. The principal methodology used for this engagement was limited to interviews with key members of management, inquiries, examination of documents, observations, and analytical procedures.

Introduction

The Wayne County Treasurer's Office (WCTO) is responsible for the collection and disbursement of delinquent taxes. The Office is also responsible for processing all Wayne County forfeitures and foreclosures, and the auctioning of foreclosed properties. The major functions of the office include acting as the steward for the County by investing County funds; receiving payments from the public related to delinquent taxes as well as a variety of other types of payments; managing the tax foreclosure process, including an auction of foreclosed properties; and other office functions to support the core operations.

SUMMARY OF ISSUES

AUDIT OBJECTIVE #1: ASSESS COMPLIANCE WITH RULES, REGULATIONS, STATE LAWS AND COUNTY ORDINANCES	
Issue Identified	**Types of Issue**
2019-01 Adherence to the Foreclosure Timeline Established by Public Act 123 (Pg. 6)	Significant Deficiency
2019-02 Develop Process to Validate Mailing Notifications to Taxpayers (Pg. 8)	Control Deficiency
AUDIT OBJECTIVE #2: ASSESS THE EFFECTIVENESS OF CONTROLS OVER THE TREASURER'S FORFEITURE/FORECLOSURE AND AUCTION PROCESS	
Issue Identified	**Types of Issue**
2019-03 Monitoring Taxpayer Compliance to IRSPA Agreements (Pg. 10)	Significant Deficiency
2019-04 Enhance Monitoring of Taxpayer Compliance with DOOE Agreements (Pg. 13)	Control Deficiency
2019-05 Enhanced Business Practices to Prevent Foreclosures (Pg. 15)	Control Deficiency
2019-06 Payments Received by Mail are not Logged and Tracked (Pg. 17)	Control Deficiency
2019-07 Monitoring & Review of Property Tax Payments in PTA (Pg. 18)	Control Deficiency
2019-08 Untimely Removal of PTA Status Code 110 (Pg. 20)	Control Deficiency
2019-09 PTA System - Final Auction Payments & Deed Issuance (Pg. 22)	Control Deficiency
2019-10 Kiosk System – Inconsistency in Processing Cash Overpayments (Pg. 25)	Control Deficiency

Views of Responsible Officials

We shared the results of our audit with WCTO management and provided the above issues and recommendations based on our audit. We identified 10 issues and 30 recommendations of which management agreed with two (2) issues, partially agreed with one (1) issue, and disagreed with seven (7) issues. Management's comments are located in Appendix A - Views of Responsible Officials. We also have provided responses to management's comments which are also located within Appendix A.

Corrective Action Plan

A Corrective Action Plan (CAP) may be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

REPORT DETAILS

PURPOSE / OBJECTIVE

At the request of the Wayne County Commission, the Office of Legislative Auditor General conducted a performance audit of the Wayne County Treasurer's Office (WCTO) over the Forfeiture/Foreclosure Tax Reversion Process. This type of engagement provides an objective analysis to assist management and those charged with governance and oversight. The information provided can help improve controls and processes by parties with responsibility to oversee or initiate corrective action and contribute to public accountability.

Our objectives for this engagement were to: 1) Assess compliance with rules, regulations, state laws and county ordinances; and, 2) Assess the effectiveness of controls over the Treasurer's Forfeiture/Foreclosure and Auction Process.

SCOPE

We conducted this performance audit in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States. 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 objectives. We believe the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The scope of our engagement covered the periods of fiscal year 2017 through January 31, 2019. The fieldwork was substantially completed on April 29, 2021.

METHODOLOGY

To address the objectives outlined for this engagement and obtain an understanding of the Wayne County Treasurer's Office controls over the forfeiture/foreclosure process, we conducted observations, inquiries, analytical procedures, and interviewed WCTO management officials.

We performed walkthroughs of activities involving the processing of tax payments; payment plan enrollment; the forfeiture/foreclosure process, including adherence to deadlines established by the State of Michigan's Public Act 123 (PA 123); and, the sale of foreclosed property. Finally, we met with management officials to discuss our issues, obtain their input, and their concurrence and/or disagreement with the report's conclusions, issues and recommendations.

BACKGROUND

The Wayne County Treasurer's Office (WCTO) is responsible for the collection and disbursement of delinquent property taxes within the County of Wayne, Michigan. The Office is also responsible for the administration and processing of Wayne County properties forfeitures and foreclosures, and the auctioning of foreclosed properties that failed to pay the delinquent tax liability. The Wayne County Treasurer is an elected office that serves 1.8 million residents of Wayne County. The Honorable Treasurer is the elected official, was appointed to fill a vacancy in the position in April 2016, and was later reelected in November 2016 and 2020, respectively.

The WCTO administers the collection of delinquent taxes, forfeiture, and foreclosure process under the Delinquent Property Tax Foreclosure Public Act 123 (PA 123) of 1999. PA 123 of 1999 amended the General Property Tax Act to subject tax delinquent property to forfeiture, foreclosure, and sale over a three (3) year period. Under the act, the county treasurer is responsible for administering the foreclosure process and is defined as the "foreclosing governmental unit".

According to the act, the foreclosing governmental unit (FGU) may withhold property from the petition for foreclosure if the title of the property is held by: 1) a minor heir or persons who are incompetent; or, 2) a person undergoing substantial financial hardship. PA 123 also provides the FGU with the option to conduct one (1) or more auction sales of properties foreclosed under the act.

REAL PROPERTY TAX FORECLOSURE TIMELINE

Date	Action
Tax Year + 1	
March 1	Unpaid taxes levied in the immediately preceding year are returned to the county treasurer as delinquent for collection.
June 1	County treasurer sends notice by first-class mail to taxpayer or owner.
September 1	County treasurer sends second notice by first-class mail to taxpayer or owner.
Tax Year + 2	
March 1	Delinquent property forfeits to the county treasurer.
April 15	Deadline for county treasurer to record a certificate of forfeiture.
June 15	Deadline for the county treasurer to file petition for foreclosure with listing of forfeited property with the circuit court clerk.
November - December	County treasurer publishes a notice listing forfeited properties subject to tax foreclosure.
December	County treasurer sends certified mail notice of show cause hearing to owners of interest.
Tax Year + 3	
January	Show Cause hearings are held at the Wayne County Treasurer's Office.
March 31	Deadline for property owners to redeem their property by paying the delinquent taxes, interest, penalties, and fees.
April 1	Property is foreclosed. Property owners lose all rights. Title to the property passes to the county treasurer.
September - October	Foreclosed property is offered for sale at public auction if not purchased by the local, state or county government.

Source: *Wayne County Treasurer's Office*

The WCTO is staffed by over 65 employees (both full-time and temporary) as well as a handful of contractual employees and interns. The WCTO annual fiscal year budget is $320.64 million, of which property tax revenues make up $304.56 million, or 95% of total budgeted revenues. The WCTO is organized into two major sections – Financial Services and Forfeiture/Foreclosure – each of which is managed by a deputy treasurer. A Chief Deputy Treasurer manages both deputies as well as office administrative functions.

The major functions of the office include acting as the custodian over the County funds, which include investing County funds. The WCTO is also responsible for receiving payments from the public related to delinquent property taxes as well as a variety of other types of payments, managing the tax foreclosure process, including an auction of foreclosed properties, and other office functions to support its core operations.

OBJECTIVE 1: ASSESS COMPLIANCE WITH RULES, REGULATIONS, STATE LAWS AND COUNTY ORDINANCES

We assessed the Wayne County Treasurer's Office compliance with the Delinquent Property Tax Foreclosure Public Act 123 (PA 123) of 1999 covering key areas of the forfeiture/foreclosure and auction process.

Conclusion

As part of our review, we reviewed key compliance provisions for the WCTO to adhere to PA 123. Based on our review, we identified two areas that will require WCTO management to address in the near term. The areas are identified below:

Foreclosure Timeline Established by Public Act 123

Public Act 123 (PA 123) amended the General Property Tax Act to subject tax-delinquent property to forfeiture, foreclosure, and sale over a three-year period. The act reforms the tax reversion process and places primary responsibility for its administration with the foreclosing governmental unit (i.e., County of Wayne, MI). As stipulated within PA 123, the foreclosing governmental unit is defined as the county treasurer or the state, if the county has elected not to handle the process.

According to PA 123, property owners with taxes that are three years delinquent will be foreclosed and the property will be sold at public auction. For example, individuals who fail to pay their 2015 property taxes will lose their property to foreclosure on April 1, 2018.

To avoid foreclosure, property owners may either: 1) enter into a payment agreement with the Wayne County Treasurer's Office (WCTO) for all outstanding delinquent tax years on or before March 31st; or, 2) redeem the property by paying the taxes, interest, penalties, and fees for the foreclosing tax year by March 31st. On April 1st, the property is foreclosed, property owners lose all rights, and title to the property passes to the county treasurer.

We assessed the Wayne County Treasurer's Office adherence to the timeline established by PA 123 by identifying properties listed on the Properties Subject to Foreclosure listing for two (2) consecutive years, 2017 and 2018. For the analysis, we assessed whether the WCTO foreclosed on the identified parcels in 2018 that had not remitted in total the amount of delinquent taxes due. For any properties not foreclosed in 2018, we sought to determine:

1. Whether the property(ies) had entered into a payment agreement prior to April 1, 2018 or April 1, 2019 for delinquent tax year 2015 or 2016, respectively, or
2. Whether the property(s) delinquent taxes, interest, penalties, and fees had been paid in full.

We identified 5,336 properties that appeared on the 2018 Properties Subject to Foreclosure listing which were not foreclosed in 2018 and did not appear on the listing of payment agreements established from October 1, 2017 through January 31, 2019. We judgmentally selected a sample of 50 of the 5,336 parcels, or approximately one (1) percent, to test for adherence to the foreclosure timeline as set forth in PA 123.

As a result of our review, we determined that 12 of the 50 parcels sampled, or 24 percent, were not foreclosed in accordance with the timeline set forth by PA 123. We noted the following exceptions:

- Six (6) parcels had property taxes that were partially paid or paid in full after the foreclosure date;
- Four (4) taxpayers entered into payment agreements after the foreclosure date;
- One (1) parcel was foreclosed to a municipality 20 months after the foreclosure date; and,
- One (1) residential parcel was incorrectly coded by the WCTO as industrial and never entered the foreclosure process. We determined the Assessor's Office had recorded the property as Residential.

For the other 38 properties sampled, 33 properties were paid for in full prior to the foreclosure date. Three (3) properties entered a taxpayer assistance program prior to the foreclosure date. One (1) property was foreclosed to the municipality per PA 123 and one (1) property was removed by court order.

According to management, the WCTO has an internal practice of extending the foreclosure deadline to early June, which is more than two (2) months after the foreclosure deadline. Management indicated they try to keep, when possible, taxpayers within their homes.

Failure to ensure all taxpayers are afforded the extended deadline could be perceived as unfair and not equitable if some taxpayers are allowed to retain their properties after the established foreclosure deadline, while others are foreclosed on April 1st. Without documenting those noted exceptions, could result in potential litigation to the county and/or a State review of the county's delinquent tax/forfeiture/foreclosure process.

Recommendation #2019-01 – Significant Deficiency

In order to ensure not only the fair and equitable treatment of all taxpayers but also the appearance, we recommend the Wayne County Treasurer's Office:

a) Ensure eligible taxpayers are placed within WCTO tax assistance programs prior to the foreclosure deadline date; and,
b) Document those taxpayer exceptions whose homes were not foreclosed on at the foreclosure deadline date in accordance to Public Act 123 of 1999.

Views of Responsible Officials

Management Agrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses; (*Page 32*).

Develop Process to Validate Mailing Notifications to Taxpayers

The General Property Tax Act 206 of 1893 – Redemption and Annulment within Section 211.78 stipulates the county treasurer shall send three (3) notices to taxpayers immediately succeeding the date that unpaid taxes are returned to the county treasurer as delinquent under section 78a. The specified mailing dates and method of notification is as follows:

- Section 211.78b **Notice provisions; June 1**. - shall send notice by first-class mail, address correction requested, to the person to whom a tax bill for property returned for delinquent taxes;
- Section 211.78c **Notice provisions; September 1**. - shall send notice by first-class mail, address correction requested, to the person to whom a tax bill for property returned for delinquent taxes was last sent or to the person identified as the owner of property returned for delinquent taxes;
- Section 211.78j **Schedule of show cause hearing by foreclosing governmental unit; - December** - If a petition for foreclosure is filed under section 78h, the foreclosing governmental unit shall schedule a hearing not later than 7 days immediately preceding the date of the foreclosure hearing under section 78k to show cause why absolute title to the property forfeited to the county treasurer under section 78g should not vest in the foreclosing governmental unit.

The WCTO had a total of 4,178 foreclosed properties listed for the 2018 auction year for delinquent parcels from the 2015 tax year. In order to determine compliance with the sending of notification letters to property owners in accordance with PA 206, we randomly selected a sample of 52 parcel ID/property addresses from the 2018 foreclosure population to test.

Based on discussion with WCTO management, a database of delinquent taxpayers is transmitted electronically from the WCTO to its mailing contractors who are responsible for sending out the mail notifications. Specifically, we reviewed three mailings (see list below) to determine if the taxpayers listed on the foreclosed properties list received the mailed notifications as required by PA 206:

1. Delinquency Notification - June 2016 (Year 1);
2. Forfeiture Notification - September 2016 (Year 1); and,
3. Show-Cause Hearing Notification - December 2017 (Year 2).

Based on the 52 samples tested, we determined that for all three (3) required mailings, the WCTO sent a database of taxpayers' property addresses to the mailing contractors for distribution for delinquent taxes on properties from the 2015 tax year. According to WCTO officials, once they forward the 1st and 2nd mail listings to the mailing contractors, contractual terms require the mailing contractors to proceed.

We were informed that once the mailing list has been sent to the two (2) mailing contractors, there is a confirmation returned for the receipt of the data file. In addition, an email notification is sent by the mailing contractors to the WCTO to confirm that the notices for the identified parcels have all been successfully sent. We inquired if the WCTO could provide the confirmation emails sent by the mailing contractors to the WCTO. Officials stated that they would have a difficult time trying to locate the emails as these confirmations were sent to various staff persons and they were not sure where they would be located. Per discussion with WCTO management, different team members within the WCTO department have worked with mailing contractors since December 2017.

As a result, it appears a formal process has not been established within the WCTO to document and retain the validation provided by the mailing contractors evidencing to the WCTO the delinquent tax notifications were mailed to property owners.

Also, by not having a process in place to adequately monitor compliance of notification mailings based on the mailing contractor agreements could lead to property owners not receiving adequate notification of delinquent property taxes in order to take timely corrective action. In addition, without validation by the mailing contractors, WCTO would not be knowledgeable if they are in compliance with PA 206. Ensuring all required notifications were mailed to taxpayers with delinquent property taxes could avoid potential litigations should the property go into foreclosure.

Tax Payments Sent to Mailing Contractors in Error

We also performed a walkthrough with the two mailing contractors. Based on our walkthrough with one of the contractors, we were informed that on occasion, a taxpayer will send/mail their tax payments to the contractor's address instead of the county's return address as posted on the mailer. The mailing contractor indicated when these payments are received; they forward them to the WCTO.

We inquired as to whether the contractor kept a log to record and track these payments as they come in. Mailing contractor management responded that they do not keep a log for these returns and indicated that the number of tax payments that come to them is very low. They believe the recipient is just looking at the contractor's address which is posted on the envelope and not the instructions provided on the WCTO communication, which specifically tells the taxpayer to mail their payments to the County Treasurer 's address. Payments returned to the mailing contractor without formal documentation and accountability provides a risk that these payments may be lost or stolen and could ultimately lead to a forfeiture/foreclosure of the taxpayer's home.

Recommendation #2019-02 – Control Deficiency

In order to mitigate risks related to past due tax notifications, we recommend management within the Wayne County Treasurer's Office develop a formal process to ensure:

a) All notifications sent from mailing contractors, regarding the dates notifications are mailed to property tax owners, are compiled, and retained for subsequent verification; and,
b) Require the mailing contractors to log any tax payments returned to the contractor and forward the payments and the log to the WCTO for review and processing.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses, (*Page 33*).

OBJECTIVE 2: ASSESS THE EFFECTIVENESS OF CONTROLS OVER THE TREASURER'S FORFEITURE/FORECLOSURE AND AUCTION PROCESS

We assessed the Wayne County Treasurer's Office internal control environment over the forfeiture/foreclosure and auction process. The internal control environment is the set of standards, policies, processes, and structures designed to provide reasonable assurance of the achievement of business objectives, and include categories such as Organizational Structure, Risk Identification and Analysis, Policies and Procedures, Effectiveness of Communication, and Ongoing Monitoring of Activities.

Conclusion

Based on our review and assessment of the control environment over the forfeiture/foreclosure and auction processes, we identified areas of control that could be strengthened to improve operations. We applaud the WCTO for providing efficient customer service to county taxpayers and others as well as having the other locations and/or methods to make tax payments.

However, we found areas within the control environment over the recording and monitoring of payments made to the PTA system that need to be strengthened and noted that some that will require management's immediate attention. Below are the areas we identified to manage and mitigate the risks associated with recording and monitoring forfeiture/foreclosure payments and the auction process.

Monitoring Taxpayer Compliance to IRSPA Agreements

The Wayne County Treasurer's Office (WCTO), per state statutes, has established the Interest Reduction Stipulated Payment Agreement (IRSPA), a tax foreclosure avoidance agreement which allows taxpayers to pay delinquent property taxes over a 60-month period. The WCTO processed a total of 5,886 IRSPA applications during the audit scope period of October 1, 2017 through January 31, 2019.

While the IRSPA agreement allows the taxpayer to remit payment of the delinquent taxes within 60 consecutive months, the taxpayer is also required to:

1. Provide proof the taxpayer has the Principle Residence Exemption (PRE);
2. Remit an initial down payment of 10% for the delinquent taxes owed; and
3. Remain current on the payment of all non-delinquent taxes while enrolled in the program.

We performed a review of IRSPA applications that were processed during the period of our review to assess whether approved taxpayers met program qualifications and were subsequently compliant with the agreement terms.

To determine program compliance, we selected a sample of 100 IRSPA applications from the scope population to test. WCTO management stated starting in January 2018, they implemented new procedures to enter IRSPA application forms and supporting documentation into the PTA system. For the 100 samples selected, we were informed by the WCTO that the IRSPA application forms and supporting documents could not be located for 17 of the 100 samples selected for testing. As a result, we could not determine whether the 17 taxpayers met the qualifications for program enrollment, or were in compliance with the IRSPA agreement terms. However, the WCTO was able to provide the application packages for 83 of the 100 selected.

Specifically, we noted the following areas of non-compliance with the IRSPA agreement for the 83 applications:

PRE - Principle Residential Exemption

From our review of documentation provided by WCTO and the PTA system, for a majority of the 83 applications, we were unable to determine from our review of the PTA system if the taxpayer provided evidence of their Principle Residential Exemption (PRE) status at the time of applying for the tax foreclosure avoidance agreement. According to management, the cashiers are to validate the PRE status which is a requirement to obtain the agreement.

We subsequently met with WCTO officials who provided a sample PTA screen shot where cashiers are to review and check the PRE status box at the time the taxpayer applies. However, when we subsequently reviewed the PTA system for a number of selected test samples, we were not able to validate if the cashiers checked the PRE box at the time of enrollment into the program. According to the Information Technology (IT) Director, after the initial validation by the cashier, the checked PRE status box is not maintained in the PTA system.

Per discussion with WCTO management, the cashiers are trained to verify and validate the Principal Residence Exemption (PRE) status within in the PTA 213 screen in instances where the taxpayer's had previously obtained the PRE status or the taxpayers can show proof they applied for the PRE along with evidence it was approved by the State of Michigan.

Down Payment Requirement

Based on discussion with WCTO management, Cashiers are trained to apply prior tax payments received toward the down payment amount stated in the IRSPA Agreement as part of internal business practice. According to WCTO officials, while not formalized in policy, they count prior payments remitted during the 12-month period prior to the IRSPA agreement date toward the taxpayer's down payment.

We analyzed the 83 taxpayers to assess the 12-month period methodology as described by WCTO management. Based on our assessment, we determined:

- 16 of the 83 (or 19%), made the 10 percent down payment requirement at the time of the agreement execution even though prior payments were made within the prior 12 months.
- The remaining 67 of the 83 samples, the 10 percent down payment was not met at the time of executing the agreement but prior payments made in the 12-month period were utilized to satisfy the 10 percent requirement.

As previously stated by management, the down payment criteria has not been formalized into policy. Given the fact that the IRSPA agreement states that a 10 percent amount is due at the time of executing the contract, we found there were inconsistencies in how the down payment was being applied to various taxpayers. This could be a result of taxpayers not being aware of how the 10 percent down payment requirement is being applied.

Current with Subsequent Years' Tax Payments
Per review of the property tax statements as of our assessment dates, we found 58 of 83 of assessed properties were in non-compliance with the IRSPA agreement terms that required the taxpayer to remain current on the payment of non-delinquent taxes (i.e., subsequent years' taxes) while enrolled in the program. We determined that the 58 taxpayers were delinquent in paying their property taxes for subsequent tax years after the IRSPA agreement was executed.

As a result of the noted conditions within our limited review of the IRSPA agreements:

- By not ensuring all required agreement terms and conditions are adhered to could result in the acceptance of ineligible taxpayers. In addition, the agreements could have been deemed no longer effective resulting in interest being retroactively applied.

- Consequently, this could result in some taxpayers receiving inequitable assistance and bypassing the forfeiture and/or foreclosure of the property. In addition, without documented evidence (i.e., PRE document) within the PTA system that all program qualifications were met, a third-party reviewer could question the approval of applications.

Recommendation #2019-03 – Significant Deficiency
We recommend WCTO management revise and/or establish policy and procedures for the approval of IRSPA agreements by:

a) Ensuring that the PTA System retains the cashiers' review and validation of the PRE Affidavit Form and State approval for subsequent verification by third parties.
b) Formalizing the current business practice for applying down payments and include on the IRSPA program application to ensure all taxpayers are aware of it.
c) Ensure that adequate monitoring is performed during the year to identify taxpayers who are non-compliant with IRSPA payment agreements, and that non-compliant taxpayers are immediately notified of their potential forfeiture or foreclosure status.
d) Monitor the status of IRSPA applications that have been approved to ensure they are uploaded timely into the PTA system and that all support is attached.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 34*).

Enhance Monitoring of Taxpayer Compliance with DOOE Agreements

The Distressed Owner Occupant Extension (DOOE) is a tax payment program offered by the WCTO which extends the deadline for the payment of delinquent taxes for owner-occupants experiencing documented financial hardship. The program is only available the year the taxpayer's home is in foreclosure and all delinquent taxes due prior to the year of foreclosure must be paid in full to be eligible for the taxpayer assistance program.

In order to qualify, the taxpayer must submit:

1. A completed, signed application along with the applicant's valid State of Michigan ID;
2. A copy of the recorded deed or land contract to validate they own and occupy the home as their principle residence, and,
3. A Sworn Statement of Income along with Proof of Income. The applicant's household income must meet the Household Income Standards established by the Treasurer in the DOOE policy.
4. Per the instructions outlined in the application, the taxpayer must attest that they understand that payment of all delinquent taxes is due in December of the year of foreclosure.

We performed a limited review of Distressed Owner Occupant Extension (DOOE) applications that were processed during the period of October 1, 2017 through January 31, 2019 to verify that:

1. Approved taxpayers met DOOE program qualifications for enrollment;
2. Approved taxpayers remitted the required documentation to be enrolled into the DOOE program, and received notification of the decision;
3. Approved taxpayers were compliant with the DOOE payment agreement terms; and
4. Properties were considered for foreclosure in instances of non-compliance with the DOOE payment agreement terms.

The Wayne County Treasurer's Office (WCTO) processed a total of 1,411 DOOE applications during the audit scope period of October 1, 2017 through January 31, 2019. In order to assess and evaluate compliance to DOOE program requirements, we selected a random sample of 30 DOOE applications from the population to test.

For the 30 samples selected for assessment, we noted the following areas of non-compliance with the DOOE program qualifications and requirements:

- Ten (10) of the 30 properties selected for testing did not have the DOOE application form retained or uploaded into the PTA system. As a result, we were unable to verify that the taxpayer signed a completed DOOE application form with the documented attestations of ownership, principal residency, and financial distress for these ten (10) samples.

DOOE Program Qualifications:

Occupancy, Ownership and Financial Distress

We noted that 20 of the approved applicants appeared to not meet the Household Income Standards that were required for enrollment into the DOOE program. Specifically:

- Eight (8) of the 20 applicants provided annual household income that exceeded the Household Income Standards stated within the program qualifications at the time of application.

- Twelve (12) of the 20 applicants did not write the annual household income on the Sworn Statement of Income that was included in the application package, or provide the annual income amount on other documentation.
- Fourteen (14) of the approved applicants did not provide evidence of principal residency, such as a billing statement, to validate ownership of the property stated on the application form.
- Twelve (12) of the approved applicants did not provide a description of financial distress on the Sworn Statement of Income as requested on the application form.

Proof of Income and Payment of Prior Year's Delinquent Taxes

In addition, we found that although the WCTO stated they rely upon the taxpayer's attestation through the sworn statement of income, we noted that the approved DOOE applications proof of income (i.e., income tax returns) in order to qualify for the DOOE program were not retained. According to WCTO management, most of the taxpayers appear to be low-income and do not have to file tax forms. In addition, WCTO management stated a draft policy requiring the taxpayers to provide proof of income through State and Federal income tax returns has not been adopted.

Based on our review, we determined three (3) of the 30 sampled taxpayers exceeded the WCTO Household Income Standard. We also reviewed the IRS filing requirements for 2018 and found the WCTO Household Income Standard to qualify for the DOOE Program was in some categories more than the gross income amount required to file a tax return (See table below for example):

Filing Status / Number of Persons Residing in Household	WCTO Household Income Standard 2018	IRS Filing Requirement for 2018: ***Single*** under 65 / Single Over 65		IRS Filing Requirement for 2018: ***Head of Household*** under 65 / Over 65	
1	$ 12,060	$ 12,000	$ 13,600		
2	$ 16,240			$ 18,000	$ $ 19,600
3	$ 20,420	Required to File		Required to File	
4	$ 24,600	Required to File		Required to File	

In addition, we noted that one (1) applicant did not remit full payment of the prior year's taxes in order to qualify for the DOOE program.

Compliance with Agreement Terms

We determined that 13 of the approved applicants did not remit payment of the delinquent taxes outstanding by the December deadline stated in the notification letter, which could have subjected the taxpayer to foreclosure. During initial discussions with WCTO officials, taxpayers are given a 6-month extension of time to June of the following year to pay the outstanding delinquent taxes in which the petition to foreclose is filed. However, we found no documented evidence to allow taxpayers additional time to remit payment of the delinquent taxes up until the statutory time period.

Based on subsequent discussions with WCTO officials, they indicated taxpayers are provided an automatic extended redemption period until the following year in which the petition to foreclose is filed. However, they indicated the DOOE application will be revised to require payment of all delinquent taxes outstanding by the statutory deadline.

According to WCTO officials, cashiers receive high volumes of applications to process, and may not be able to manually file and upload DOOE application forms and support into PTA within 24 hours of receipt. In addition, WCTO management asserts that the Sworn Statement of Income was sufficient for DOOE applicants with low income; and they were not required to present a State or Federal income tax return.

By not consistently obtaining all required program documentation to qualify a participant could result in the acceptance of ineligible taxpayers. In addition, the extended redemption period given to taxpayers is not transparent for third party verification or review.

Recommendation #2019-04 – Control Deficiency

In order to mitigate risks related to the DOOE agreements, we recommend management within the Wayne County Treasurer's Office implement policies and procedures to include the following:

a) Ensure cashiers obtain all required documentation from applicants to properly verify eligibility for the DOOE program.
b) Ensure cashiers upload the DOOE application form and supporting documentation into the PTA system on a timely basis for third party review and transparency.
c) Ensure the extended time afforded taxpayers to pay off their delinquent taxes is documented and uploaded into the PTA program.

Views of Responsible Officials

Management Agrees in part and Disagrees in Part with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 36*).

Enhanced Business Practices to Prevent Foreclosures

We performed an analysis to determine if there are additional measures that the WCTO can take to achieve its vision of reducing delinquencies and preventing foreclosures of owner-occupied homes for the stabilization of neighborhoods.

We obtained and reviewed a total of 4,178 parcels on the 2018 foreclosure listing provided by the WCTO. Subsequently, we determined 15 parcels originated from a prior year Right of Refusal (ROR) and were returned to the Treasurer's inventory in 2018; and two (2) parcels were child parcels of a parent parcel id already included on the foreclosure listing. Therefore, we excluded the 17 parcels from our analysis: resulting in a total population count of 4,161 properties.

We obtained the original tax delinquent amounts before penalties, fees and interest from the WCTO for the 4,161 properties foreclosed in 2018. Based on our analysis, 2,031 properties, or 49 percent, had original delinquent tax before penalties, fees and interest under $1,500. (See Table A below.) Of the 2,031 properties with original delinquent taxes under $1,500, 1,745 properties, or 86 percent, were located in Detroit; and the remaining 286 properties, or 14% were located Out-County. (See Table B below.)

However, we could not quantify the number of owner-occupied properties with delinquencies under $1,500. Although we requested the Primary Residence Exemption (PRE) of the foreclosed properties, the Treasurer's Office was unable to provide the information stating that a programming change may be required.

Table A

2018 Foreclosed Properties in Wayne County		
Delinquent Tax Amount	**No. of Properties**	**Percentage**
Under $1,500	2,031	49%
Over $1,500	2,130	51%
Total	4,161	100%

Table B

Analysis of Original Delinquent Taxes Under $1,500				
Delinquent Tax Amount	**Detroit Properties**	**Out-Wayne Properties**	**Total Wayne County Properties**	**% of Total WC Foreclosed < $1500 Due**
Under $500	390	138	**528**	**26%**
$500 - $999	586	53	**639**	**31%**
$1,000 - $1,500	769	95	**864**	**43%**
Total	**1,745**	**286**	**2,031**	**100%**

Based on discussions with the WCTO, the Treasurer's Office sends notices to all taxpayers advising of the Interest Reduction Stipulated Payment Agreement (IRSPA). While it appears the Treasurer has not established a process to specifically identify and contact owner-occupied with delinquencies under $1,500, we assert with additional efforts adopted during the first year of delinquency (i.e., programming changes), targeting this group of taxpayers owing less than $1,500, the WCTO may further help prevent foreclosures.

Recommendation #2019-05 – Control Deficiency

In an effort to assist with the Treasurer's vision of reducing delinquencies and preventing foreclosures of owner-occupied homes, we recommend management within the Wayne County Treasurer's Office enhance its business practices by developing a policy and procedure to address the following:

a) Identify owner-occupied properties with tax delinquencies under a certain amount, as stipulated by the Treasurer, when property taxes are returned delinquent to the county;
b) Develop outreach measures to contact the identified taxpayers during the first year of delinquency, prior to the forfeiture of the property, and outline the taxpayers' options for resolving tax delinquencies; including, information on the various WCTO's payment plans and the City of Detroit's Pay As You Stay program, as well as a list of organizations that may assist the homeowners in maintaining their homes; and,
c) Document all efforts taken by the Treasurer's office to resolve the tax delinquencies of owner-occupied homes with moderately low outstanding tax delinquencies and report on its outcome.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 37*).

Payments Received by Mail are not Logged and Tracked

The Wayne County Treasurers Office (WCTO) accepts property tax payments by mail. Taxpayers are informed to document their parcel ID on the check and enclose their respective payment coupon, so that payment recording is not delayed. Per the WTCO website, receipts are not provided unless a taxpayer provides a self-addressed, stamped envelope with their payment. The taxpayers parcel ID or address of the property should also be written on the back of the envelope.

Through inquiry with management and a walk-through with the mailroom staff, it was noted that the mailroom uses a scanning system for all certified mail received called, "Mail_Go and Data Entry". Management stated that only United Parcel Service and FedEx parcel bar codes are scanned. First Class mail however, sent via U.S. Postal Office (USPO), does not have a barcode to scan. Therefore, the mail room does not track tax payments when received via first class mail. According to management, approximately 100 to 150 pieces of first-class mail containing tax payments are received daily.

Internal control best practices for enhancing accountability over payments received recommend that all checks or monies received through the mail be logged by the receiving department and traced to the recording of the payment. Furthermore, effective internal controls over checks payments state, all checks should be restrictively endorsed at the time of receipt with "For Deposit Only". A restrictive endorsement limits the use of a financial instrument. This stamp effectively limits further action on the check by the stated payee to only being able to deposit it.

Once payments are received by the mailroom, all incoming mail is time-stamped, and certified mail is scanned. However, there is no log maintained to document the receiving of mail payments by USPS, prior to the mailroom clerk walking over to the cashier department to hand deliver the checks to the Cashiering Supervisor. We also observed that as checks are received, they are not being restrictively endorsed with "For Deposit Only" by the mailroom clerks.

During discussion, mailroom staff indicated that cash payments are sometimes received and when cash is received, the mail clerk notifies a Mailroom supervisor and the supervisor will take the cash payment to the cashier. Based on discussion with WCTO management, the occurrence of this is rare and the dollar impact is low. However, without a log of the incoming cash payments, we were unable to assess the process or quantify the dollar amount.

We also were informed in some instances, when mail is received, the taxpayer information is lacking and a parcel I.D. cannot be identified. According to mailroom staff, in these instances, the payment is placed in the cash vault within the cashiering department and is held until the taxpayer calls-in or taxpayer and parcel I.D. can be subsequently identified and entered into the PTA system.

Based on discussion with management regarding the mailroom processes, measures have not been established to (a) address the accountability over logging and tracking the tax payments that come through the mail room via first class mail, and (b) the handling of tax payments that are not readily identifiable with a parcel identification number. Also, a supervisor within the mail room division stated in-coming checks are not restrictively endorsed.

Without developing a tracking mechanism, that could include parcel I.D. and amount, for a tax payment received via first class mail, there is an increased risk that property tax payments may not be properly accounted for. Also, when checks are not restrictively endorsed or cash not properly logged with supporting information immediately upon receipt, the risk of misappropriation of tax payments increases. The consequences of payments not being applied in a timely manner to their respective parcel ID could expose the taxpayer's property to forfeiture or foreclosure, unbeknownst to them.

Recommendation #2019-06 – Control Deficiency

In order to minimize the risk that mailed payments and/or cash payments may be lost or unaccounted for we recommend management within the Wayne County Treasurer's Office:

a) Implement procedures for receiving and tracking tax payments received through the mail. At a minimum, the individual opening the mail should log all cash received in the mail; note date of receipt, the name of the taxpayer and parcel I.D. or property address; and scan checks to implement accountability over their receipt.
b) A supervisor or someone segregated from opening the mail use the tracking log or similar mechanism and trace the payments to the PTA system.
c) The mail division should restrictively endorse all checks received for processing prior to forwarding them to the Cashiering Division.
d) The Cashier Supervisor should maintain a list of tax payments received that cannot be immediately identified with a taxpayer or parcel I.D and establish follow-up procedures to alleviate the untimely recording of tax payments.

Views of Responsible Officials

Management Agrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 38*).

Monitoring & Review of Property Tax Payments in PTA

GAO Standards for Internal Control states that transactions should be authorized and executed only by persons acting within the scope of their authority. This ensures that only valid transactions to exchange, transfers, use, or commit resources are initiated or inputted by authorized personnel. Management should clearly communicate these authorizations to personnel. Also, that transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

We performed an assessment of the Wayne County Treasurer's Office (WCTO) process over the processing of tax payment cancellations (voiding the payment) and the reapplication (correction) of payments in the Property Tax Administration System (PTA). According to management, the process to cancel a tax payment primarily starts after a taxpayer notifies the WCTO.

We performed an analysis of the cancellations performed during our audit scope period and noted that 78% of the cancellations were performed during calendar year 2018. Therefore, we selected a test sample of 30 payment cancellations from the calendar year 2018.

We reviewed the selected payment cancellations and reapplications transactions to evaluate whether controls were in place to ensure that:

1. Payment errors were identified and corrected timely in PTA.
2. Payment cancellations and reapplications were adequately reviewed and approved by WCTO management.
3. Payments that were cancelled were reapplied and posted accurately in PTA.

Based on our assessment, we determined the following:

1. For a significant period of our review, (Oct. 2016 to Jan. 2019), while there appeared to be internal business practices, we found no evidence of policies and procedures for processing and approving canceled and reapplied tax payments had been formalized by WCTO management. Upon our request for policies and procedures, WCTO provided our office policies effective January 2019; however, subsequently, management stated these polices pertained to and were intended for Cashiers' processing of voided tax payments at the walk-in window and was not related to the cancelation and reapplications of tax payments upon notification from the taxpayer that a payment was not applied correctly.

   However, we noted the issued policy for Cashier's voiding of tax payments clearly states a manager or supervisor must review and approve a voided transaction prior to processing. Because the canceled and reapplied tax payments did not have formalized policies, we assessed this process based on the approval process within the Cashier's voiding of tax payments policy. Having manager review and approval is a good internal control.

2. We found for 17 of the 30, or 56%, of the payment cancellations did not have evidence that WCTO Management reviewed and approved the transaction prior to processing.
   - We noted that nine (9) of the transactions were prepared by an account clerk within the Tax Division. We found there was no evidence that a WCTO Manager reviewed and approved the cancellation prior to processing. According to WCTO management, a clerk was one of a limited number of staff assigned to a WCTO manager and given delegated authority to process the transactions.

   - According to WCTO management, while the account clerks were exclusively assigned to a Manager, a "managerial-signoff" will need to be implemented.

   - Also, within the PTA system, we found the cancelled and reapplied transactions were recorded within the PTA 497 Cancel and Reapply Receipts screen. However, WCTO was unable to provide the PTA 497 Cancel and Reapply Receipts for eight (8) of the transactions. Per review of the notations provided on the tax receipts, it appeared that a WCTO Manager may have processed the cancellation and reapplication in PTA 497, however the PTA 497 screen that lists the staff person processing the reapplication payment was not provided.

3. We also noted that two (2) of the 30 payment cancellations could not be located in the PTA system or within the documentation provided for review.

The inability to correct property tax payment errors on a timely basis may result in untimely postings that could lead to the foreclosure of properties due to non-payment of taxes. The lack of obtaining WCTO manager or supervisor approval for cancelled and reapplied payments bypasses the delegation of authority to approve transactions and negates a proper segregation of duties. In addition, failing to conduct a thorough review of cancelled and reapplied property tax payments may result in an excessive amount of payment errors, and increases the likelihood of inaccurate posting of property tax payments.

Recommendation #2019-07 – Control Deficiency

To mitigate risks related to the processing of canceled and reapplied tax payments in the PTA System, we recommend WCTO management:

a) Establish a policy for processing canceled and reapplied tax payments in order to define established authority for approving these transactions as well as ensure consistency within the transaction process.
b) Conduct periodic reviews to ensure the established policy and procedures are being adhered with to validate the accuracy and timeliness of canceled and reapplied payments processed in PTA.
c) Ensure management's review of canceled and reapplied transactions is documented within the PTA system approving the transactions.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 38*).

Untimely Removal of PTA Status Code 110

According to WCTO management, PTA Status Code 110 – Withheld from Forfeiture is used by the WCTO to flag properties which are likely owned by government agencies that are exempt from property taxes. We documented the following WCTO internal practices as it relates to Status Code 110:

a) Status Code 110 is a temporary status until the property ownership is verified and then the property status is changed to the appropriate status.
b) All of the parcels that are subject to forfeiture irrespective of any property status and were not scrubbed in the prior year including those with status '110' are reviewed by the Info Management Team and are part of the annual manual scrubbing process.
    - Property status, owner's names and addresses are updated based on the scrubbing review and a COF (certificate of forfeiture) is recorded for those that are eligible to be forfeited.
c) The WCTO does not maintain documented justification for changing a parcel's status code to 110; instead, the process is criteria driven based on the parcel's ownership name.
    - The WCTO performs a database search based on the parcel's ownership name. (i.e., the City of Detroit)
    - Status code changes are automated/classified to a parcel as part of larger and more comprehensive operational procedures conducted by the WCTO when uploading batch information on properties.

- We were informed other status code changes are authorized by the Treasurer, Deputy Treasurers, and the Information Management unit staff.

d) We also reviewed the Neighborhood Enterprise Zone (NEZ) Act 147 of 1992 which states there is a specific tax levied to the owner of a homestead facility with a NEZ certificate known as the neighborhood enterprise zone tax. Section 9 of the Act states that the homestead facility, but **not** the land on which the facility is located, is exempt from ad valorem real property taxes collected under the general property tax act. The NEZ Act also states that if the neighborhood enterprise zone tax is not paid by March 1st following the levy of the tax, the tax shall be turned over to the county treasurer and collected in the same manner as a delinquent tax under the general property tax.

To assess the adequacy of the Treasurer's Office assignment of PTA Property Status Code 110 - Withheld from Forfeiture, we requested a list of all properties coded to Status Code 110 during our scope period of Oct. 1, 2016 through Jan. 31, 2019. We were provided with a list of 333 parcel identification numbers with the names and addresses of the property owner.

Based on our review of the 333 parcels, only 71 of the parcels had governmental ownership. We found the remaining 226 properties had ownership names consisting of LLCs, banks, and individuals, which are taxable entities. In addition, the WCTO asserted that 51 of the 333 parcels have delinquent taxes and were government owned.

We performed an analysis on the 51 delinquent parcels and determined that 12, or 24 percent, of the parcels had ownerships in the name of a business or individual taxpayer(s). We also requested the local assessor's most recent property record card for the 12 parcels in order to verify the parcels' property class and most recent property tax assessment.

Based on our review of the 12 parcels, we concluded that the review process to analyze properties coded as 110 – Withheld from Forfeiture is not performed in a timely manner. We also determined that nine (9) of the 12 parcels, could have been included in the forfeiture/foreclosure process due to the amount of delinquent taxes owed for the years they were coded Status 110. See the table below.

Review of Parcels with Status Code 110 – Withheld from Forfeiture

Selection No.	Appx. Date of Status Code Change to 110 - Withheld from Forf. (per *PTA System*)*	Assessor's Property Classification	Year of Last Assessment (per property record card)	Delinquent Real Property Tax								TOTAL
				2011	2012	2013	2014	2015	2016	2017	2018	
Parcel 1	3/10/2017	401-RESIDENTIAL	2020	-	-	-	-	1,313	827	42	38	2,220
Parcel 2	3/10/2017	401-RESIDENTIAL	2020	-	-	-	-	-	-	-	831	831
Parcel 3	3/10/2017	RESIDENTIAL – IMPR	2020	-	-	-	-	-	-	-	1,277	1,277
Parcel 4	8/19/2016	446-RESIDENTIAL NEZ	2019	-	-	523	533	159	63	534	526	2,339
Parcel 5	8/19/2016	003-RETIRED REAL	2017	-	-	-	-	-	-	167	-	167
Parcel 6	8/19/2016	003-RETIRED REAL	2018	-	-	-	-	-	-	111	1,016	1,127
Parcel 7	8/19/2016	003-RETIRED REAL	2017	-	-	-	-	-	-	160	-	160
Parcel 8	8/19/2016	003-RETIRED REAL	2018	-	-	-	-	-	-	1,222	1,019	2,241
Parcel 9	2/2/2017	702-RETIRED REAL	2011	2,087	-	-	-	-	-	-	-	2,087
												12,449

*** - As of October 30, 2020, the nine (9) parcels reviewed had a status code of 110 - Withheld from Forfeiture.**

As a result, because of the status code 110, the nine (9) properties identified above received property tax bills but were withheld from the forfeiture/foreclosure process until a determination of the taxable status is made by the Treasurer's office.

Based on discussions with management, the WCTO has not established policies and procedures to consistently monitor the assignment to and re-assignment from Status Code 110 – Withheld from Forfeiture in the PTA system in a timely manner.

In addition, the WCTO indicated there are some instances in which the local assessor's office continues to assess ad valorem taxes in error for child parcels with Neighborhood Enterprise Zones (NEZ) exemptions. Therefore, the WCTO places the child parcel in a 110 status code and removes the child parcel from foreclosure pending a correction of the exemption status. Based on our review of the NEZ Act, the child parcel is not subject to ad valorem taxes on the land; however, the child parcel is still responsible for the neighborhood enterprise zone tax, which is assessed on the property structure by the local tax assessor's office.

Ultimately, failure to move properties from Status Code 110 – Withheld from Forfeiture into a taxable position in a timely manner, while penalties and interest are accumulating, may prove favorable for delinquent taxpayers by affording them additional time since they are not being included in the forfeiture/foreclosure process.

Recommendation #2019-08 – Control Deficiency

We recommend management within the Wayne County Treasurer's Office:

a) Conduct within the near term an assessment of properties coded with Status Code 110 to determine their taxable status;
b) Develop policy and procedures for "the manual scrubbing" process;
c) Perform continuous monitoring of changes in property status codes within the PTA system;
d) Maintain documented justification and obtain senior management's approval for changing a parcel's status code to 110 – Withheld from Forfeiture for all non-governmental entities.
e) Establish a procedure to move properties from a 110 status code to a taxable position in a timely manner.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 39*).

PTA System - Final Auction Payments & Deed Issuance

WCTO Taxpayer Services/Post Foreclosure Auctions Procedures (Issued March 1, 2019)
D. Conveyance of Properties Purchased at Auction

- Information Management staff prepares the Quitclaim Deed in the name of the Purchaser as directed by the bidder. If there are no instructions provided, the property is deeded to the name of the registered bidder and that address used.
- Upon receipt of full payment price, Information Management staff records the Quit Claim Deed with the Register of Deeds.

- The recorded Quit Claim Deed is forwarded by Auction Land Management staff to the auction purchaser in accordance with any direction from the Bidder or to the address as registered.
- Information Management prepares consolidated PDF and Excel versions of a spreadsheet for each local municipality listing the purchaser, the description of the property sold, the price and the date of the recording of the deed.

We assessed the Wayne County Treasurer's Office (WCTO) process for monitoring compliance with internal policies and laws governing the conveyance of Quit Claim Deeds to winning bidders for parcels sold at the property tax foreclosure auctions. We evaluated if adequate controls were developed to ensure that Quit Claim Deeds were properly conveyed to the winning bidder in accordance to the terms stated within the General Property Tax Act.

The WCTO sold a total of 2,408 deeded properties at the September 2018 and October 2018 property tax foreclosure auctions, in which we selected a sample of 70, or three percent (3%), of the total population to test. Per our assessment of the 70 deeded properties, we noted four (4) property auction sales receipts payments appeared to have been cancelled in the PTA system after the property deeds had been issued to the winning bidder.

During our analysis, which included reviewing the winning Bidders Statements and PTA system transaction history, we noted the auction sales receipts for each of the four parcels were cancelled and reapplied numerous times after the auction took place (see an example below). As a result of the recorded transactions, the auction sales payment for the deeded properties netted to zero.

<u>PTA System: Transaction Detail History Screen</u>

2018 - 3082 / Property Sale Receipt	10/30/2018 Voided, following cash register validation	$4,986.00
2018 - 3082 / Voided for auction	10/30/2018 Validated	-$4,986.00
2018 - 3261 / Property Sale Receipt	10/30/2018 Canceled - overpayment, for rereceipt / Sale cancellation requested by Sharai	$4,986.00
2018 - 3261 / Cancel auction	11/02/2018 Validated	-$4,986.00
2018 - 3308 / Property Sale Receipt	11/02/2018 Canceled - overpayment, for rereceipt / Sale cancellation requested by Sharai	$4,986.00
2018 - 3308 / Cancel auction	11/29/2018 Validated	-$4,986.00
2018 - 3395 / Property Sale Receipt	11/29/2018 Canceled - overpayment, for rereceipt / Sale cancellation requested by Sharai	$4,986.00
2018 - 3395 / Cancel auction	12/04/2018 Validated	-$4,986.00

We inquired of WCTO officials to determine the status of the deeded properties and explanation for the numerous transactions recorded after the auction took place. According to WCTO officials, for the identified properties, each parcel was part of a bundle of properties purchased at auction by the respective bidder. The sale of the identified parcels was not canceled but the sale of another parcel within the bundle was canceled. According to WCTO officials, the cancellation of one parcel required the "entire auction transaction" to be canceled and reapplied within the PTA system and county general ledger.

In addition, we asked WCTO officials to provide the reason for the cancellations. For one (1) of the four (4) parcels, we obtained documented evidence of a court order that cancelled the sale for that parcel. For the remaining three (3) parcels, WCTO officials again stated because of cancelling one of the parcels awarded to the bidder, the entire transaction was cancelled and reapplied after the auction sale date.

However, during our analysis of the four (4) noted exceptions, the PTA transaction detail screen was not showing the correcting transaction to reapply the auction property sale entry that took place two years prior. We informed WCTO officials of this finding. WCTO officials indicated during a follow up walkthrough of the process and subsequent discussion that a 'glitch' occurred in the PTA system and although the transactions took place, they did not appear within the system. WCTO officials determined the "glitch" was within one of the PTA system modules that updates the transaction entries that reflect payments and adjustments for each auction bidder by parcel.

According to WCTO officials, it was only after we brought these transactions to their attention, the glitch was fixed and now the transactions are readable within the PTA transaction detail screen. According to WCTO management, additional adjustments for parcel entries that were cancelled are just being completed.

Management stated while the informational (transaction) entries for the reapplied and canceled payments were missing, the auction payments were properly posted against the respective Bidder's account and parcel numbers, and the payments were properly processed in PTA and the county's general ledger.

However, because of a lack of established monitoring procedures to conduct a timely review of all cancelled and reapplied auction payments and transaction entries, this may result in inaccurate information recorded in and/or reported from the WCTO Property Tax Administration (PTA) system. Inaccurate information within the PTA System for auction sales of county parcels could lead one to question the validity of the transactions processed; system information; and/or the conveyance of the property deed.

Recommendation #2019-09 – Control Deficiency

In order to mitigate the recording of inaccurate and/or missing information within the Treasurer's Office PTA System, we recommend WCTO management establish policies and procedures for conducting annual internal reviews for transactions recorded for auction sales, cancellations, and reapplication of auction sales receipts to ensure the accuracy of the information being recorded and reported in the PTA System.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 39*).

Kiosk System – Inconsistency in Processing Cash Overpayments

The WCTO accepts tax payments at over 47 kiosk machines located throughout the county. The Kiosk machines can only "receive" cash payments in whole dollar amounts and does not dispense any monies (i.e., dollars or change). When taxpayers make their kiosk payments, a tax receipt (see below) is generated in the PTA system that indicates any overpayment will be refunded within 4 to 6 weeks.

D U P L I C A T E

Tax Receipt

Receipt Number:	010-2018-124358	**Date:**	03/30/18
Bundle:	13547143	**Interest Effective Date:**	03/29/18

Receipt Details:

Municipality - Parcel ID	Tax Year	Paid Tax	Paid Int & Fees	Paid Total	Due Tax	Due Int & Fees	Due Total
[redacted]	2017	$20.84	$1.04	$21.88	$0.00	$0.00	$0.00
			Total:	$21.88		**Through 03/31/18**	**$0.00**
			Refund (in 4 to 6 weeks):	$8.12			
			Receipt Total:	$30.00			

Tender Information:
Trans# DIVDAT1500796
Total Amount: $30.00
Trans Amt: $30.00

Summary Information:	
Date Created: 03/30/18 02:04:56 AM	Issued By: 1
Date Printed: 01/25/21 10:45:36 AM	Type: K

The WCTO informed us that all Kiosk daily transactions are automatically (computer generated) batch loaded overnight into the PTA system for recording of the transactions.

To assess the adequacy of the Treasurer's Office recording of taxpayer payments using the DivDat Payment (Kiosks) to the PTA System, we requested a sample of four days (Feb. 14, 2020, Aug. 12, 2019, Mar. 30, 2018 and Feb. 28, 2019) of batch transactions from the WCTO during our scope period. The WCTO provided the OAG with four days of transactions recorded within the Kiosk system for payments made by Automated Clearing House (ACH) (i.e. Checks), CASH, and Credit Cards (CC).

There was a total of 2,395 kiosk transactions that we tested for the four selected days. We traced total collections by payment type to the recorded bank deposits for each day. We tied out the recorded DivDat Kiosk deposit records by tracing the total collections to the day's polling reports (i.e., bank deposit receipts) provided by the WCTO. We found no exceptions.

Of the total 2,395 kiosk transactions obtained, there were a total of 1,689 cash payment transactions, or 70%, made for the four days reviewed. Because of the risk associated with cash payments, we focused our detailed testing on cash overpayments processed through the kiosk system.

During our assessment of the cash payments collected during the four days, we identified the following:

- We identified a total of 375 cash payments (or 22% of all cash payments) as being an overpayment compared to the tax amount due on a parcel. These 375 transactions totaled $1,094.70 in cash overpayments.

- ➢ From these 375 overpayments, we judgmentally selected a sample of 46 transactions (or 12%) to determine its disposition: specifically, whether a refund was issued as indicated on the tax receipt.
- ➢ We also were informed by WCTO management that in some cases, an overpayment could be applied to a prior tax year if a delinquency existed.

For the 46 overpayments reviewed that were identified on the tax receipt indicating that it would be refunded back to the taxpayer in 4 to 6 weeks from the date of overpayment, we determined the following:

A. For ten (10), or 22% of the 46 overpayments, which ranged from $2.45 to $37.00:

- For nine (9) of the 10 (10) overpayments, there was no evidence in the PTA system of a refund check number generated, nor did we find the overpayments applied to either a prior or subsequent tax year. The amount of these transactions totaled $81.93.
- For the remaining overpayment we were able to identify a check number within the PTA system that appeared to be issued to the taxpayer of record.

B. For 36 (or 78%) of the 46 overpayments, we determined they were posted to either a prior or in some cases, a subsequent tax year. The overpayment amounts ranged from $3.96 to $32.63. Within the 36 transactions, we found they were applied to either a prior or subsequent tax year. Management indicated overpayments are system generated to be either refunded or posted to a delinquent tax year.

Specifically, we determined from our review of the 36 PTA system transactions that:

- Five (5) overpayments were applied to prior (delinquent) tax years.

- For 21 overpayments, we determined there was a refund check number that was generated in the PTA system along with the refund amount noted on a tax payment receipt. However, we found the refund amount was utilized as a tax payment against the taxpayers' subsequent year taxes. We also noted these transactions appeared to be the cashiers processing the refund checks against the subsequent tax year delinquent amounts.

- For the remaining 10 overpayments which were also applied to the taxpayers' subsequent year taxes, we found no system generated refund check number in the PTA system. Also, unlike the other noted subsequent year postings, we found no evidence of a tax receipt being generated from the PTA to support the posting of the overpayment.

We attempted to identify if written procedures were established that outlines how cash overpayments originating from the Kiosk machines should be handled. WCTO officials stated that there are no formal written procedures for recording kiosk payments in PTA as this is a system-based process.

Based on our overall assessment, we found inconsistency in how these tax payment overages are being applied.

Without an established policy specifying what action to take when cash overpayments occur using the kiosk system has resulted in the inconsistent application of the tax payments. Also, indicating on the kiosk tax receipt that a refund is forthcoming to the taxpayer when in fact an overage could be applied to a delinquent or subsequent tax year could be deemed as misinforming the taxpayer.

Recommendation #2019-10 – Control Deficiency

We recommend, in order to establish consistency and enhance accountability, the Wayne County Treasurer's Office formalize a kiosk policy and procedures to:

a) Establish criteria for processing cash overpayments through the kiosk machines.
b) Ensure procedures are implemented to review counter type tax adjustments/refunds originating from the Kiosk system.
c) Ensure a tax receipt is generated and mailed to the taxpayer for any excess payment that is not refunded but posted to a prior or subsequent tax year.

Views of Responsible Officials

Management Disagrees with the Recommendation(s)

See Appendix A - Views of Responsible Officials and OAG Responses (*Page 40*).

Subsequent Events

According to a May 10, 2021 news article, the WCTO was granted a request by a Wayne County Circuit Court judge which extends the ban on foreclosures of occupied homes and commercial properties through March 31, 2022. The ban was granted by the judge keeping those occupied homes and commercial properties from being auctioned this year.

According to a Detroit Free Press article dated May 4, 2021, the WCTO has had substantial staffing shortages within their call-center due to the COVID-19 pandemic. According to officials, over the past year, the WCTO call center staffing has declined from twelve (12) to two (2) employees, due to an increased number of sick leaves and resignations.

As a result of the decline in call-center staffing, the WCTO call center has been unable to address the high volume of calls received for the TAPs program enrollments. The WCTO call center receives around 800 calls a day; however, with the reduction in staffing, only 150 calls can be processed in a day. WCTO officials have plans for seeking out a contractor to provide call-center services on behalf of the County.

OAG OVERALL CONCLUSION

Overall, the Wayne County Treasurer's Office, through the years, has been effective in meeting its goals and objectives with providing excellent customer service to Wayne County residents. The establishment of Taxpayer Assistance Programs along with additional methods to make tax payments (i.e., Kiosk machines, on-line etc.) has afforded taxpayers more accessibility to make their tax payments. According to the WCTO, they have saved over 50,000 property owners from property tax foreclosure within the past two years. Also, the WCTO has had an 85 percent reduction in foreclosures over the last three years along with zero Owner-Occupied Foreclosed Properties in Wayne County.

As a result of our audit, we did note instances where the internal control environment will need to be strengthened including, but not limited to, the following areas: adherence to Public Act 123 related to forfeiture/foreclosure; enhance controls over tax payment agreements; increased monitoring and approval of transactions in the PTA system, improve controls over tax payment processing, and implement policies and procedures to mitigate risk related to mail-in tax payments.

There were 10 issues and 30 recommendations made to strengthen controls and processes within the Wayne County Treasurer's Office operations. Two (2) of the issues are classified as significant deficiencies, which is classified as medium risk. Eight (8) of the issues are classified as control deficiencies, which are deemed to be low risk.

We discussed the issues and corresponding recommendations with representatives from the Wayne County Treasurer's Office. Management agreed with two (2) of the issues, partially agreed with one (1) issue, and disagreed with seven (7) issues. Management's comments have been included in the report under "Views of Responsible Officials and OAG Response" at Appendix A. We also have provided responses to management's comments which are also located within Appendix A.

A Corrective Action Plan may be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Wayne County Treasurer's Office and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Sincerely,

Marcella Cora

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

Appendix A

Views of Responsible Officials and OAG Response

The Office of the Legislative Auditor General ("OAG") was tasked with conducting a "performance audit" of the Wayne County Treasurer's Office Forfeiture and Foreclosure Tax Reversion Process in early 2019. For over two (2) years, the OAG has reviewed procedures and policies, conducted interviews and combed through almost every operational procedure of this office including those that tangentially relate to the Forfeiture and Foreclosure Tax Reversion Process. While the WCTO welcomes the opportunity to improve our performance and operational efficiencies, the length and the breadth of this engagement have been astounding for most of the staff involved. From the beginning of the engagement through the end, staff of the WCTO had to not only provide documents and access to systems and procedures, but has had to educate the auditors on even the most basic fundamentals of the tax foreclosure process. We thank our staff for their willingness, patience and diligence in training the OAG on tax foreclosures and our operations. We also thank the OAG for its review and have carefully taken into consideration its recommendations as we continue to review our operations and the policies the Treasurer believes are necessary for efficiencies, control and compliance.

We do not disregard the recommendations of the OAG but believe that it is important to note that the stated objectives for the engagement – to assess (1) compliance with rules, regulations, state laws and county ordinances and (2) effectiveness of controls – have seemingly been disregarded in many of OAG's "findings." A detailed review of the recommendations reveals that in only one instance did the OAG identify the failure to comply with an existing law (which notably was done with intent to reduce foreclosures and maintain home ownership within Wayne County and with the concurrence of the circuit court).

We are pleased to see that the final report from the OAG has moved from its original punitive stance of increasing foreclosures and revenues to the County from the sales of properties and now recognize the importance of the objectives of the Treasurer to reduce foreclosure sales and to retain a high level of property ownership and neighborhood stability in the county. Our responses to the recommendations contained in this Appendix reflect our commitment to provide outstanding services to Wayne County taxpayers while reducing delinquencies and foreclosures of owner occupied homes for the stabilization of neighborhoods.

OAG Response to Views of Responsible Officials

The Office of Legislative Auditor General (OAG) was requested by the Wayne County Commission to conduct an audit of the WCTO Forfeiture, Foreclosure and Auction process. Under Government Auditing Standards, a performance audit provides an objective analysis to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, facilitate decision making by parties responsible for overseeing and initiating corrective action and contributing to public accountability.

The OAG is a peer reviewed internal audit department. A peer review is conducted by independent auditors selected by the National Association of Local Government Auditors. The OAG has been a peer reviewed internal audit function since 2004 and maintains an "Orange Book" status which states audits are conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States and the International

Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). This classification is highly respected within the auditing industry.

The OAG agrees with WCTO management that the engagement was conducted over a two-year period. We strive in our office to complete engagements as quickly as possible, however, many factors go into the length of time an engagement may take. A primary factor is the complexity of the operation under audit. The forfeiture, foreclosure and auction process is very complex. We, like all entities in the county, are short staffed and the staff we do have are required to work on more than one engagement. It is also important to note that the COVID pandemic that occurred in early 2020 impacted the audit process to some degree for all parties including the OAG staff getting acclimated to working remotely in performing the audit process. Since the start of the engagement, there were periods where personnel within the WCTO were unavailable due to either office shutdowns or availability of staff and we understand that delays can happen. We also incurred changes in WCTO senior executive management personnel during the course of the engagement. In working with the WCTO, some of the delay was the requesting and sharing of sample documentation of the areas assessed to management to further our understanding for their review.

To conduct a performance audit, the auditing standards require the auditors to obtain an understanding of the auditee's operations and implemented controls in order to assess potential risk that may occur ***within*** *day-to-day activities. We believe this is the reference management of the WCTO is referring to when they indicated they had "to [train] the OAG on tax foreclosures and our operations." As stated above, the forfeiture, foreclosure and auction operations is a very complicated process that evolves over a three year cycle. Over the three-year period there are ongoing transactions (i.e. tax payments, enrollment into assistance programs, etc.), and notification requirements mandated by state law that all lead to the determination by the County Treasurer as to whether a taxpayer home is ultimately foreclosed on.*

The objectives for this engagement set forth by the OAG are overarching and do not constitute any desired results that may occur in the findings. During the audit the OAG only focused its efforts on the operational functions covering the forfeiture, foreclosure and auction processes conducted within the WCTO. Specifically, through the course of conducting the audit fieldwork, we identified several areas of risk within the forfeiture, foreclosure and auction areas that we assessed and determined those areas required management's attention.

We conclude by stating it is the objective of the OAG to provide all elected officials and county departments an objective assessment of their operations in order to assist management in its oversight and governance responsibility. The WCTO opinion that the OAG had a "punitive" focus is untrue.

We agree with WCTO management that the overall objective is to afford county taxpayers the opportunity to maintain home ownership. However, it is also imperative that within the eligible foreclosure programs and requirements that every county taxpayer is afforded a fair and equitable opportunity. It's also equally important to ensure consistency and transparency is achieved within the WCTO forfeiture, foreclosure and auction operations.

<u>OBJECTIVE 1 - Assess Compliance with Rules, Regulations, State Laws and County Ordinances.</u>

<u>Adherence to the Foreclosure Timeline Established by Public Act 123</u>

Recommendation #2019-01 (Pg. 7) – Significant Deficiency

Management agrees with the Recommendation(s)

a) The WCTO notes generally that fair and equitable treatment of all taxpayers has been established in that taxpayers of all classes are allowed the opportunity to enter payment plans and to redeem parcels prior to the entry of final judgment of foreclosure. No class of taxpayers has been excluded by the WCTO or by the circuit court in extending the period of redemption for foreclosed properties.

While we agree with the findings on this issue, we believe it important the history of this practice provide context for our response. The long standing practice of the WCTO and the circuit court has been to allow for a modification of the petition for foreclosure before the final judgment of foreclosure is entered, particularly for taxpayers claiming lack of or inadequate notice or those suffering extreme hardship. The circuit court retains discretion to modify its order upon a request by the WCTO for properties paying off delinquent taxes (See Section 78h(2) of the General Property Tax Act which provides in pertinent part: "*If property is redeemed after the petition for foreclosure is filed under this section, the foreclosing governmental unit **shall** (emphasis added) request that the circuit court remove that property from the petition for foreclosure before entry of judgment foreclosing the property under section 78k. MCL 211.78h(2)).* The circuit court has historically exercised discretion in extending the time for issuance of the final judgment because of the unique situation of Wayne County in addressing objections and providing for the required hearings for tens of thousands of properties with delinquent taxes each year. In almost every instance noted by the OAG as a failure to comply with the foreclosure timeline, the actions allowing for removal from the petition of foreclosure was done prior to the entry of a final judgment foreclosing the property in accordance with 211.78(h) and with the consent of the court. This process has been used successfully and with the cooperation of the courts to mitigate the risk of potential litigation noted by the OAG and subsequent financial liability to the county, as well as to alleviate the pressure on the circuit court docket to complete thousands of foreclosure objection hearings prior to mid-March each year. This is also the case for those properties whose owners have entered into a stipulated payment agreement as allowed by Circuit Court. Any changes to the schedule without the extension of the redemption period will have to be submitted to the circuit court for concurrence.

Additionally, the WCTO notes Section 78h (3) of the General Property Tax Act allows for removal of properties for reasons specified therein. The WCTO also notes that the OAG has added the word "**only**" to the statutory language that provides the reasons that the foreclosing government unit may remove properties; however, there is no such exclusive language contained within the General Property Tax Act. Moreover, the OAG focuses on only a limited number of reasons allowed for the removal of properties under Section 78h (3). There are more, including "persons without means of support, or persons unable to manage their affairs due to age or infirmity, until a guardian is appointed to protect that person's rights and interests."

Given the history and the extreme number of foreclosures in Wayne County prior to 2015 resulting in loss of revenues for the County (See Attachment 5 for illustration), it is almost inconceivable that the OAG would recommend that this longstanding practice with the consent of the courts be discontinued at this time, especially given that it is open to all taxpayers and not a specific class. The WCTO will continue to allow for the removal of such properties in all instances allowed under State law.

We also note that timelines for entering payment plans have been adjusted prior to the OAG review and will continue to be adjusted as we move to ensure that taxpayers entering payment plans will have the required 60% down payment (as now required for removal post-petition) paid prior to March 31 of each year and in order to provide sufficient time for claimants to auction proceeds to submit their claims as required by new legislation enacted this year. Exceptions may continue to be made for taxpayers claiming insufficient or lack of notice to mitigate the risk of litigation and for taxpayers suffering extreme hardships (i.e., no means of support, mental incompetence, infirmities, elderly, minor heirs, etc.), provided that the Circuit Court is in agreement with such actions and the shortened time period.

b) The exceptions are currently documented on subsequent petitions to the Court to modify the judgment of foreclosure and maintained by the Office of Corporation Counsel. WCTO views this recommended additional log as a duplication of effort that may require additional staffing and increased costs.

OAG Response to Management's Comments

The OAG is not and would never recommend the discontinuation of striving to keep taxpayers in their homes. However, we are recommending that eligible taxpayers are placed within the appropriate tax assistance program prior to the foreclosure deadline date and that management document any exceptions to foreclosure that would be in accordance with Public Act 123 of 1999.

Develop Process to Validate Mailing Notifications to Taxpayers

Recommendation #2019-02 (Pg. 9) – Control Deficiency

Management Disagrees with the Recommendation(s)

a) As noted above, the OAG determined that for the 52 parcels tested, all three of the required mailings were submitted to the contractor for completion. The OAG then focuses its review on the delinquent tax notice by recommending only a practice not required by any "rules, regulation, state law or county ordinance." It is, therefore, difficult to understand why this "condition" is listed under the stated objective.

The delinquency tax notice is required to be mailed by first class mail only and subsequently no proof of delivery is required by statute; the legislature recognized this impossibility as there is no record of first class mailings maintained by the post office. In fact, under the General Property Tax Act, unless proof of service is required by law, there is a presumption that notice has been provided by the Treasurer. The presumption has been upheld by the courts on multiple occasions using only the documents we provided to the

OAG for its review. To require the WCTO to create and retain such records is tantamount to overriding the legislation and will rebut the presumption provided to the county treasurers. If the WCTO were to adopt the recommended practices from the OAG, it could lose the presumption provided by law and would likely be required to provide evidence not otherwise required and thereby shift the burden of proof from the taxpayer and onto the WCTO. Our position is supported by the members of the Office of Corporation Counsel assigned to the WCTO.

b) The WCTO notes that its files for the delinquent tax notices as provided to the mailing contractors were produced to the OAG as well as copies of emails from the contractors confirming delivery dates and affidavits from the contractors. Copies of the affidavits are again attached for review. Those affidavits have been sufficient for the courts (which is the only third party requiring such evidence) as evidence of the mailing.

   WCTO also notes that the current contract requirements do not include the provisions cited by the OAG, and in the past, those referenced provisions related only to the foreclosure notices as evidenced by the requirement that the Post Office produce an affidavit which can only be provided for certified mail.

OAG Response to Management's Comments
The OAG determined the 1st and 2nd Delinquent Tax Notice mailings by the contractors was not verifiable by the WCTO. As indicated by management, the email notifications provided by the contractors to the WCTO for the delinquent notice mailings were difficult to locate and therefore was not provided to our office. The affidavits provided and referenced by the WCTO were specifically for the 1st Class mailing required for the Show Cause Hearing. The Show Cause Hearing is subsequent to the 1st and 2nd Delinquent Tax Notice mailings by the contractors.

OBJECTIVE 2 - Assess the Effectiveness of Controls over the Forfeiture/Foreclosure and Auction Process.

Monitoring of Taxpayer Compliance to IRSPA Agreements

Recommendation #2019-03 (Pg. 12) – Significant Deficiency

Management Disagrees with the Recommendation(s)

a) This recommendation is illustrative of the OAG's failure to understand the principal residency exemption process under state law. Taxpayers do not apply for a principal residency exemption at the office of the county treasurer; thus, cashiers can only review and verify local and State approval of the application in the WCTO PTA system. As explained to the OAG, taxpayers are only required to present a copy of the application for the Principal Residency Exemption when applying for an IRSPA payment plan if the records (as provided by the local assessors' offices) do not indicate the PRE has been granted. Applicants who have been approved by the local assessors, and where the PRE exists and has been provided by the local assessor in the tax roll submission (as noted in PTA), are not required to present a copy of the affidavit. (Management provided attachment showing screen print of PTA where PRE exists.) During the enrollment process in PTA, cashiers must indicate review of PRE status and applicant's state identification in order to proceed with the enrollment. Although this requirement for review was not noted in the SOP document, the processing of the IRSPA cannot proceed unless the cashier indicates that they have reviewed the PRE. Upon review of the PRE status, only if the parcel does not indicate a PRE was granted by the local taxing authority, is the copy of the affidavit required. (Management provided attachment) Cashiers are also not able to process the IRSPA enrollment in PTA without confirming the identity of the taxpayer. (Management provided attachment) The verification process is captured in PTA and can be demonstrated and supported. The email from March 2020 referenced by the OAG was a communication to staff to clarify and reinforce that standard practice. The procedure documents will be corrected to include the required confirmation of the PRE status in the PTA system; however, the PTA system will not be modified as the WCTO believes it sufficiently and accurately captures the review process.

b) OAG reported that 47% of sampled taxpayers did not submit the required down payment of the effective date of the IRSPA Agreement as required. WCTO disagrees. As a general rule, cashiers cannot enroll a taxpayer without the required down payment amount. (Management provided attachment). WCTO notes that taxpayers who have made payments prior to entering an IRSPA agreement are credited with those payments towards the down payment amount and may not have been required to submit any additional payment on the "effective date" of the IRSPA agreement. At no time did our office indicate that the down payments applied from prior payments were limited to payments made within a 12 month period; we noted that <u>all and any</u> prior payments made by taxpayer may be included to meet the required 10 percent of the delinquent tax amounts. Moreover, once the OAG provided sample data requested by the WCTO, WCTO subsequently reviewed such data provided by the OAG and determined that <u>all</u> of the samples reviewed by the OAG met the 10% down payment threshold. Further, the method of calculation is consistent, is not calculated by the cashiers manually and is applied equally to all taxpayers who enter an IRSPA payment plan

c) WCTO notes that the data for late payment submissions are not provided in the report. The IRSPA agreement terms are developed by the Treasurer in conjunction with the Office of Corporation Counsel and are not mandated by statute. There is no express default provision in the current IRSPA agreement; however, it should be noted that IRSPA payment compliance is monitored on a monthly basis and text reminders messages are sent to non-compliant taxpayers typically at regular 3 month intervals. Additionally, the WCTO call center contacts taxpayers throughout the year and advises of the amounts due prior to removal. Taxpayers are not immediately removed from the IRSPA, but are allowed a short grace period to cure prior to removal as removal does not result in an immediate foreclosure of the property. Those properties that are in default and fail to cure within the allowed grace period are included in the succeeding petition for foreclosure. (See MCLA 211.78q(5)(b), "The property must be included in the immediately succeeding petition for foreclosure under section 78h.")

We also note that contrary to the consequences stated in the report, there is no significant reduction in revenues from interest as the higher interest rate is proactively charged to the parcel in the event of a default. Further, implementing the original recommendation will not necessarily increase the number of foreclosures but would in fact increase hardships for many taxpayers who have been over assessed by local authorities.

d) WCTO agrees that all agreements and supporting documents should be uploaded into the PTA system on a timely basis after approval. Exceptions have been made in the past for those periods in which the office experiences heavy taxpayer volume and staffing is not adequate to ensure timely processing. This deficiency has already been addressed prior to the issuance of this report with the acquisition of additional scanners for each cashier and the requirement for immediate to upload of all payment plan agreements upon execution of the agreement.

<u>OAG Response to Management's Comments</u>

a) The OAG met with WCTO officials to discuss the process for verifying the PRE status in the PTA system after noting the PRE status box was not checked in the PTA system. As noted in our report, the IT Director stated after the initial validation by the Cashier, the checked PRE status box is not maintained in the PTA system. We disagree with management that the PRE status box can be supported in the PTA system if the checked PRE status box is not maintained for the third-party review. A PTA system review may be necessary.

b) Based on several discussions with WCTO management, and subsequent analysis on the calculation of the 10% down payment for our tested population, we determined there was inconsistency in how the 10% down payment was being calculated for taxpayers. For example, we found some taxpayers remitted a 10% down payment at the time of executing their IRSPA agreement but had also remitted tax payments within the prior 12-month period. Formalizing the methodology over the down payment requirement may avert any inconsistency.

c) The IRSPA agreement states while the taxpayer is enrolled in the IRSPA Program, they are to "remain current on all non-delinquent taxes." Our report found taxpayers were not always remaining current with the subsequent years (i.e., non-delinquent taxes) taxes as required. The monitoring recommendation relates to this provision.

<u>Enhance Monitoring of Taxpayer Compliance with DOOE Agreements</u>

Recommendation #2019-04 (Pg. 15) – Control Deficiency

Management Agrees in part and Disagrees in Part with the Recommendation(s)

a) WCTO agrees that applications and supporting documents should be uploaded into the PTA system on a timely basis after approval. Exceptions have been made for those periods in which the office experiences heavy taxpayer volume and staffing is not adequate to ensure timely processing. This deficiency has already been addressed with the acquisition of additional scanners for each cashier and the cashing unit is required to upload all payment plan agreements upon execution of the agreement.

b) We are unable to respond without additional information and therefore disagree with this recommendation. As a general rule cashiers must obtain the required documents to support a DOOE application; however, in some instances where there is an application new plan for a subsequent year and documents are already received, cashiers may not upload the updated documents.

c) WCTO disagrees with this recommendation. Although taxpayers enrolling in the DOOE are given a "plan" with equal monthly payments, the DOOE is not per se a "payment plan" but as stated in the title, is an "extension" of the redemption period allowed for foreclosed properties. There is no "grant" of an additional extension after December 31st. In granting the extension for financial hardship under the General Property Tax Act, WCTO withholds those parcels from foreclosure until the end of the succeeding redemption period. Thus, the "additional" extension is by operation of the law. WCTO monitors whether the taxes subject to foreclosure are paid in full at the end of the extended redemption period. If the taxpayers have not paid off those delinquent taxes at the end of extension period (the end of the succeeding redemption period), the parcels are then subject to foreclosure.

OAG Response to Management's Comments

c) The OAG report doesn't indicate a "grant" of an extension is performed. The OAG agrees the PA allows for the additional extension however, an application for an extension and supporting documentation still has to be approved by the WCTO. Without the documentation in the PTA system identifying the financial hardship condition does not provide a third-party reviewer with justification for the extension.

Enhanced Business Practices to Prevent Foreclosures

Recommendation #2019-05 (Pg. 16) – Control Deficiency

Management Disagrees with the Recommendation(s)

WCTO does not understand the standards used by the OAG to find a "control" deficiency as this finding is in no way related to the stated objective of "assessing the effectiveness of controls over the Treasurer's forfeiture/foreclosure and auction process." We also note that the OAG's analysis focused on properties "likely to be foreclosed" and not those properties that were actually foreclosed.

The WCTO concurs that there are always "additional measures that the WCTO can take to achieve its vision of reducing delinquencies and preventing foreclosures of owner-occupied homes for the stabilization of neighborhoods," and takes pride in annually reviewing and implementing additional measures to reduce the number of foreclosures of owner-occupied homes. We believe, however, that the adoption of any singular focused policy and the attendant procedures is unnecessary and could constrict the efforts made by this office towards achieving our vision. The Treasurer prefers a broader and less targeted approach to obtaining our vision when most properties with less than $1500 in delinquent taxes are not foreclosed by this office and many of the factors that contribute to delinquencies are beyond the control of this office. The adoption of such policy could also eliminate the flexibility that is granted to the Treasurer to determine the most effective methods of outreach to all taxpayers each year.

With respect to the recommendations, we note the following:

a) Throughout the forfeiture and foreclosure process, all reported owner-occupied properties are identified and reviewed on a periodic basis at the discretion of the Treasurer.

b) The WCTO has already developed outreach measures for contacting taxpayers throughout the foreclosure process including the first year of delinquency by providing information on taxpayer assistance programs in each statutory notice and on each delinquent tax statement. Additional measures include meetings with community groups on a regular monthly basis, advertising in local and community newspapers, text messaging to all taxpayers within our database, increased social media presence and engagement, and owner-occupant targeted billboards and television ads. Additionally, the WCTO website provides this information and includes a list of community organizations that assist homeowners and provide financial empowerment and literacy assistance. We note that "Pay as You Stay" which was just enacted in 2020, has been heavily promoted by this office since the passage of the legislation and has been very effective in reducing owner-occupied foreclosures.

c) The purpose of this recommendation is unclear as there is no reporting requirement for the efforts taken by the WCTO towards its stated vision for the office. The Treasurer measures outcomes annually and provides periodic reports to the Commission as requested.

Finally, we note that there is no "control" identified or to be measured for efficacy or compliance and, therefore, we believe there is no Control Deficiency.

OAG Response to Management's Comments
As part of the OAG objectives for any audit engagement, we strive to provide county management with considerations to assist management with meeting their business objectives/mission.

Payments Received by Mail are not Logged and Tracked

Recommendation #2019-06 (Pg. 18) – Control Deficiency

Management Agrees with the Recommendation(s)

The WCTO agrees to implement procedures for receiving and tracking tax payments received through the mail. The logs will include fields for (1) the name of individual opening the mail; (2) type of currency (cash or check); (3) date of receipt; (4) amount received; (5) and property address or parcel id. It should be noted that the vast majority of checks received from taxpayers go directly to the bank via the lockbox system which was implemented in order to remove this function from the WCTO mail room. We also note that tax statements advise taxpayers to not send cash payments via mail.

Monitoring & Review of Property Tax Payments in PTA

Recommendation #2019-07 (Pg. 20) – Control Deficiency

Management Disagrees with the Recommendation(s)

The WCTO stated the policy and procedures that the OAG referenced relate to a voided transaction in the cashiering area. This is not related to a cancellation and reapplies. Thus, there is no policy or procedural violations. As noted to the OAG, only a limited number of pre-approved staff members are able to input a reapplication transaction. We believe this is a sufficient control mechanism and the recommended revisions are unnecessary.

OAG Response to Management's Comments
The OAG acknowledges in the report that provided policy pertained to the Cashier's voiding of tax payments. However, because management also acknowledges that no policy and procedures have been drafted for the process of canceling and reapplying tax payments, we assert the risk to the continuity of operations is mitigated when policies and procedures are established over an operational function as noted in the recommendations.

Untimely Removal of PTA Status Code 110

Recommendation #2019-08 (Pg. 22) – Control Deficiency

Management Disagrees with the Recommendation(s)

The WCTO disagrees that this is a control deficiency and believes that the stated findings reflect a misunderstanding by the OAG of the requirement to withhold properties from foreclosures in order to avoid errors and resulting litigation. We also note that the 110 withhold status is invisible to the taxpayers as they continue to receive notices as required under law and interest accrues if the delinquent amounts are not paid. Because the OAG did not provide the data on the 12 parcels they noted, we are unable to determine whether or the reason that the parcels were not included in foreclosure.

It should also be noted that the "scrubbing" process is included in procedures for Forfeited Properties, are not stand alone procedures and does not merit a policy or separate procedures aside from those included in the aforementioned procedures.

The majority of properties coded as "110" are the result of the PTA program criteria and prior management approval should not be required. Where a property is withheld for a correction outside of the program criteria, the reasons are documented and approval by management is already required.

OAG Response to Management's Comments
Based on the analysis performed, the OAG noted properties had been coded Status Code 110 for several years. Internal policy stipulates the Status Code 110 is a temporary status until the property ownership is verified and the property is changed to the appropriate status. Our recommendations suggest that an on-going timely review of parcels coded with the Status Code 110 will achieve the desired outcome.

PTA System - Final Auction Payments & Deed Issuance

Recommendation #2019-09 (Pg. 24) – Control Deficiency

Management Disagrees with the Recommendation(s)

The WCTO disagrees that this is a control deficiency. As noted, when the program was initially developed, it did not contemplate that some informational entries in the PTA transaction detail screen when under lying parcels already had deeds issued at the time of reapplications from court orders or from the correction of errors. As this was an internal informational entry, it was only brought to our attention by the OAG and did not have any effect on all other postings/updates in the system. The program has been adjusted to account for those instances in which corrections must be made after the issuance of a deed.

OAG Response to Management's Comments

As noted in the report, the OAG review of transactions in the PTA system were missing. Upon bringing the omissions to management's attention, they agreed with the OAG's assessment and posted the transactions in the PTA system.

Kiosk System – Inconsistency in Processing Cash Overpayments

Recommendation #2019-10 (Pg. 27) – Control Deficiency

Management Disagrees with the Recommendation(s)

The WCTO stated the findings reflect a misunderstanding of how the overpayments are applied given the timing of the tax year and the possibility for tax adjustments from the State and local boards of review throughout the year. The system for processing cash overpayments is automated and links to the WCTO PTA system; staff do not manually process cash overpayments from the kiosk system. WCTO also notes that the kiosk system is not managed by our office but is a proprietary vendor based payment system and taxpayers are advised during the transaction of the vendor policy for overpayments to be applied to amounts due or otherwise refunded. Cash overpayments at the kiosk are not processed at the counter and no receipt can be generated by the cashiers.

OAG Response to Management's Comments

The OAG was informed that Kiosk overpayments are either refunded or applied to a delinquent tax year. However, we found cash overpayments as of the date of the Kiosk transaction were being applied to a subsequent tax year after the transaction date. Our review of the PTA system's Kiosk receipt noted the receipt stated that a refund would be issued within 4 to 6 weeks. We also identified in some instances check numbers associated with the overpayment amount. The OAG recommend the WCTO inform taxpayers of the possibility that overpayments could be applied to current delinquent taxes that may come due within the 4 to 6-week period.

Appendix B

Definition of Internal Control Deficiencies

Control Deficiency (low risk)

A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when (1) a control necessary to meet the control objective is missing or (2) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

A deficiency in operation exists when a properly designed control does not operate as intended, or when the person(s) performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency (medium risk)

A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiences, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that it is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness Deficiency (high risk)

A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and/or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.