



## Douglas County Internal Audit

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June 29, 2016

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Jim Cavanaugh, Clare Duda, Marc Kraft,  
PJ Morgan, and Chris Rodgers

John Ewing, Douglas County Treasurer  
1819 Farnam Street  
Omaha, NE 68183

Dear Mr. Ewing:

I have completed a performance audit of the County's policies and procedures related to the delinquent tax sale auction held each year. The purpose of the audit was to assess the adequacy and effectiveness of the County's policies and procedures over delinquent property tax sales. The audit revealed that, overall, the process is very efficient and the controls were adequately designed and worked effectively. Internal Audit identified one opportunity to enhance the refund policy for tax sale refunds as stated in the Findings section below.

### **Background**

Chapter 77 of the Nebraska Revised Statutes is the law governing the sale of delinquent property taxes to the public. Since 2010 the County has held its tax sale using an on-line auction site. The auction is hosted by Realauction.com (Realauction). Realauction is responsible for conducting the auction, recording the bid registration and award transactions, and communicating with the bidders. It provides the bid results in electronic files that allow the County to process the bid award information in its legacy system and balance the transactions to the financial records and bank statements. The County pays Realauction \$45,000 to conduct the auction. The 2016 auction resulted in the County collecting \$4.74 million in delinquent taxes, interest, advertising, and certificate fees. An additional \$109 thousand of auction registration fees was also collected.

### **Objective**

The purpose of the audit was to assess the adequacy and effectiveness of the County's policies and procedures over delinquent property tax sales. Specific objectives included the following:

- The Treasurer's office is following the state statutes related to delinquent property tax sales.
- The bidding process is fair and transparent to all persons wanting to participate in the auction.
- All auction transactions are accurately recorded and distributed to the proper general ledger accounts.
- All amounts due from bidders are received in a timely fashion according to policy.

## **Scope**

The scope of the audit covered policies, procedures, and transactions related to the 2016 auction which concluded on March 7, 2016.

## **Methodology**

Internal Audit (IA) assessed the policies and procedures used in conducting the audit and processing the related transactions. The information assessed was obtained by reviewing legal newspaper publications, written policies and procedures, interviews, website observation, and analyzing transactional data. IA reviewed the bidding instructions and related information on the Treasurer's website to see if the information was clear, accurate, and reflected state statute requirements. IA obtained the Realauction files and performed analysis of the bidder and parcel award information looking for anomalous data and to see if the procedures described were working effectively. We traced the published auction information to the Treasurer's website, verified that the summarized transactional data was balanced properly and that the money for bid registrations and awards was received in the Treasurer's bank account. A Sample of 25 refunds related to the auction was examined to see if the refunds were legitimate and that the County had actually collected the money from the bidders. IA also verified that the Omaha Municipal Land Bank was awarded the parcels that they had requested.

## **Findings**

**Criteria:** Management should have an established policy defining the legitimate reasons for which the County will grant tax sale refunds and the time period in which the refund request must be made.

**Condition:** The Treasurer's Office currently provides for the refunds of tax sale awards upon request of the bidder. Five such refunds were included in the sample of the twenty-five refunds tested. Per the Property Tax Manager, the main reason these types of refunds are granted is in fairness to the bidder. They may not have all of the information needed to make an informed decision or significant changes could occur subsequent to the sale (e.g., property demolition).

**Effect:** The County may lose out on the current use of a portion of the tax sale revenue related to the tax sale refunds. It is difficult to estimate this amount since the legacy system used to record the refunds does not list separate transaction codes for tax sale refunds or the particular reasons the refunds were granted. The amount of refunds related to the five refunds noted above was approximately \$22,000.

Cause: Management did not have a written policy defining the legitimate reasons for which the County will grant tax sale refunds. The Treasurer's office believes lessening the bidder's inherent risk related to the awards is their ethical duty and ultimately results in the collection of more tax sale revenue from bidders in subsequent auctions.

Recommendation: Define in a written policy the reasons under which the county will grant tax sale refunds including documentation of the steps taken to verify the legitimacy of the request.

Management Response: We agree with the recommendation and will craft a written policy.

**Audit Standards**

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives. This report was reviewed with the Douglas Treasurer.

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Internal Audit appreciates the excellent cooperation provided by the managers and staff of the Treasurer's Property Tax and Accounting Departments. If you have any questions or wish to discuss the information presented in this report, please feel free to contact me at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

- cc: Mark Rhine
- Jude Lui
- Richard File
- Lenny Swanger
- Tim Cavanaugh
- Patricia Carter
- Dennis Rookstool
- Dan Esch
- Sheri Larsen
- Patrick Bloomingdale
- Diane Carlson
- Joe Lorenz
- Frank Hayes
- Lynette Allen
- Tumi Oluyole