

**Property Tax Follow-Up Audit
December 2010**

Patrice Randle, City Auditor
Craig Terrell, Assistant City Auditor
Lee Hagelstein, Internal Auditor

Property Tax Follow-Up Audit Table of Contents

	<u>Page</u>
Executive Summary	1
Audit Scope and Methodology	2
Status of Prior Audit Recommendations	3



Property Tax Follow-Up Audit

Office of the City Auditor

Patrice Randle, CPA
City Auditor

Project #10-10

December 30, 2010

Executive Summary

Fully Implemented

- ***Corrected tax abatement calculations resulted in the recovery of approximately \$23,000 in under-billed/underpaid property taxes and created additional revenue in subsequent years for two property tax accounts***
- ***Obtained TAD abatement worksheets***
- ***Verification of absolute exemptions***
- ***Reconciled delinquent property tax receivable***

Partially Implemented

- ***Database of abatement agreements***
- ***Site visits***
- ***Reconciliation of summary tax assessment information***
- ***Review of refunds***
- ***Limited testing of Tarrant County's refund process***

The City Auditor's Office has completed a follow-up to the September 2009 Property Tax Audit. The follow-up audit was conducted in accordance with generally accepted government auditing standards, except peer review. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objective of the follow-up was to determine the implementation status of prior audit recommendations.

There were twelve recommendations included in the previous audit report. In their initial response, management concurred with eight of the recommendations presented. However, subsequent to audit fieldwork, they concurred with an additional recommendation. Therefore, as a result of this follow-up, four of the audit recommendations have been fully implemented and five have been partially implemented.

Management fully implemented recommendations relating to correcting abatement calculations for two companies, obtaining Tarrant Appraisal District (TAD) abatement worksheets to verify accuracy, verification of absolute exemptions and the reconciliation of delinquent property tax receivable.

Management partially implemented recommendations relating to maintaining a database of abatement agreements, performing site visits, reconciling summary tax assessment information, reviewing refunds and understanding Tarrant County's refund process.

Audit Scope and Methodology

The City Auditor's Office reviewed various documents relating to this follow-up audit. The following methodology was used in completing the audit.

- Reviewed management's documentation summarizing the implementation status of prior audit recommendations.
- Reviewed various documents obtained from TAD and from the Tarrant County Tax Assessor/Collector.
- Reviewed various City of Arlington documents which provided evidence of implementation of management's responses.

Status of Prior Audit Recommendations

Recommendation:

The Financial and Management Resources Director should ensure that the City requests that TAD adjust the accounts that have inaccurate abatement calculations.

Management's Response:

Concur/Under way. With new staff members in the City's Treasury Division, conversations have begun with the appropriate TAD staff regarding previous, incorrect abatement calculations. These calculations will be provided in writing to TAD, who will communicate to Tarrant County in order that the taxpayers be notified and corrected bills mailed.

*Target Date: September 2009
Responsibility: Ethan Klos, Treasury Manager*

Implementation Status:

Fully Implemented. Financial and Management Resources (FMR) personnel notified TAD concerning the incorrect abatement calculations. TAD made the necessary corrections and notified the Tarrant County Tax Assessor/Collector. Adjusted tax bills were prepared and sent to the two companies in question. Both companies have paid the additional property taxes, resulting in additional property tax revenue of \$22,993 for the current year. The tax abatement correction will also result in additional revenue in subsequent years for the two companies.

Recommendation:

The Financial and Management Resources Director should ensure that the City obtains abatement calculation worksheets from TAD to confirm calculated values.

Management's Response:

Concur/Under Way. This process has begun. TAD calculation worksheets will be requested by the City during 2009 prior to TAD providing the abatement calculations to Tarrant County. The TAD worksheets will be compared with what was recommended, and feedback will be provided to TAD prior to the abatement information being reported (by TAD) to Tarrant County.

*Target Date: September 2009
Responsibility: Ethan Klos, Treasury Manager*

Implementation Status:

Fully Implemented. The City maintains an Abated Values spreadsheet which contains information regarding abatement accounts. City personnel obtained copies of TAD's 2009 Real Estate Abatement Exemption Worksheets. The worksheets were reviewed to confirm the accuracy of the calculated abatement values. No exceptions were noted. According to management, this review

will become a part of the annual process. At the time of this follow-up audit, the 2010 review had not been performed because the information was not yet available.

Recommendation:

The Financial and Management Resources Director should ensure that a liaison is designated to coordinate with TAD personnel responsible for verifying absolute exemptions and should ensure that absolute exemptions are periodically reviewed and researched as considered necessary.

Management's Response:

Concur. Financial and Management Resources staff will periodically review and research absolute exemptions utilizing TAD and City of Arlington records.

*Target Date: September 2010
Responsibility: Ethan Klos, Treasury Manager*

Implementation Status:

Fully Implemented. For the 2009 tax year, the City received and performed a cursory review of TAD's Master File which contained properties with absolute exemptions. The purpose of the review was to determine the workload that would be involved in performing an annual review of absolute exemptions. Management concluded that the workload involved in randomly reviewing a selection of absolute exempt accounts each year would be manageable. Once the 2010 information is received, it will be compared to the 2009 information. Tests will then be performed on selected accounts. This review will become part of the annual process.

Recommendation:

The Financial and Management Resources Director should ensure that staff reconciles the amount of delinquent property taxes receivable per the Tarrant County Tax Assessor/Collector with the amount reported as subject to collection by the collection firm.

Management's Response:

Do Not Concur. The City has successfully outsourced its tax office and tax collection functions. While Linebarger, the outsourced delinquent property tax collector, produces reports that are not identical to the County, they do reconcile. This is checked by City staff. However, the above recommendation would require that some portion of the tax collection office that has been successfully outsourced be brought back into the City, with the additional expense that would accompany such additional effort.

Prior Audit Comment:

In a communication to the City Auditor's Office, the Budget Manager indicated that staff started comparing Tarrant County reports to reports from the delinquent property tax attorney in March 2009, which was after the fieldwork conducted by the City Auditor's Office. A confirmation of

such reconciliation will be performed during audit follow-up. The City Auditor's Office does not believe that the above recommendation would require that a portion of the tax collection office be brought back into the City.

Implementation Status:

Fully Implemented. FMR staff is currently reconciling the cumulative delinquent tax balance to the Tarrant County Tax Assessor/Collector's records. Also, a reconciliation of delinquent tax collections to information obtained from the collection agency is being performed.

Recommendation:

The Financial and Management Resources Director should ensure that a database or listing of abatement agreements is utilized to track and monitor calculations of abated values, including how a taxpayer qualified for a given abatement percentage.

Management's Response:

Concur/Under way. A more thorough documentation process began during the 2009 abatement certification process, which identifies qualifying factors where abatements are granted (or not) and also captures some history. In addition, a comprehensive abatement database is currently under development in conjunction with the Economic Development office, and will provide information regarding thorough abatement history as well as qualification for abatements at the various tiers and evaluation criteria. It will also highlight revenue and job gains.

*Target Date: January 2010
Responsibility: Ethan Klos, Treasury Manager
Robert Sturns, Economic Development Manager*

Implementation Status:

Partially Implemented. FMR, in conjunction with Economic Development, is currently in the discussion phase of developing a database of abatement agreements. A combination of City and Tarrant Appraisal District information will be used in developing the database. With the vast amount of current and historical data available, management is trying to determine what information needs to be included to make the database practical.

Recommendation:

The Financial and Management Resources Director and the Economic Development Manager should coordinate to determine when site visits should be made to confirm significant abatement information included on annual certification agreements.

Management's Response:

Concur. Financial and Management Resources will coordinate with Economic Development to make six site visits per year, so that each of the 18 abatement agreements is verified every three years.

Target Date: January through June 2010
Responsibility: Ethan Klos, Treasury Manager
Robert Sturns, Economic Development Manager

Implementation Status:

Partially Implemented. At the time of the follow-up audit, the City had not performed any site visits to confirm significant abatement information. However, FMR and Economic Development are in the process of devising timelines and the methodology for performing these visits. Some of the delayed implementation could be attributed to vacancies within Economic Development.

Recommendation:

The Financial and Management Resources Director should ensure that summary tax assessment information is reconciled to available detailed data.

Management's Response:

Concur. Financial and Management Resources staff will coordinate with TAD to receive detailed assessment data and conduct an annual comparison after the receipt of the July 25 Certified Roll.

Target Date: August 2010
Responsibility: Ethan Klos, Treasury Manager

Implementation Status:

Partially Implemented. The City received detailed tax assessment information from TAD via text file. Also, FMR met with TAD representatives and have learned the process of how the detailed tax assessment information is derived and how the information may be used. Emphasis was placed on TAD's process of producing the information, rather than the actual information. FMR management stated that learning TAD's process was a very beneficial exercise and that they are comfortable with the results. Management does not believe that a reconciliation between the summary and the detailed data is necessary, nor do they consider it necessary that this learning process be repeated.

Recommendation:

The Financial and Management Resources Director should ensure that the City periodically obtains detail refund information in order to perform a cursory review of the refunds processed and to identify any refunds that require explanation.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to review random samples of refund recipients.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

Implementation Status:

Partially Implemented. FMR staff received a schedule of 2008 tax year property tax refunds issued by Tarrant County from January 1 through June 30, 2009. Staff performed a cursory review of the information. However, no testing has been performed on the data received. Management indicated that this review will become part of the annual process.

Recommendation:

The Financial and Management Resources Director should ensure that the appropriate City representative obtains an understanding of the Tarrant County Tax Assessor/Collector refund processes and conducts limited testing of those processes to verify that sufficient controls exist to ensure that refunds are appropriately approved and that reports of refund amounts are reliable.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to increase our knowledge of refund processes and to conduct random sample testing of processes.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

Implementation Status:

Partially Implemented. FMR personnel met with the Tarrant County refund agent to learn more about how refunds are processed and about existing controls. However, FMR has not performed any testing of those processes.

Recommendation:

The Financial and Management Resources Director should coordinate with the Water Utilities Information Services Division and/or the Information Technology Department to periodically compare water billing data to TAD data to identify accounts that should be requested to reapply for exemptions.

Management's Response:

Do Not Concur. The Tarrant Appraisal District has a variety of checks and balances in place which serve this purpose. The attached document, provided by TAD, describes the numerous

methods utilized to continually monitor exemption status eligibility, as well as automated tools which notify them of changes of address and ownership. TAD currently employs up to twelve staff members who monitor exemptions.

Implementation Status:

Not applicable. Management did not concur with this audit recommendation.

Recommendation:

The Financial and Management Resources Director should ensure that documentation is retained regarding individuals asked to reapply for exemptions as a result of the comparison noted above.

Management's Response:

Do Not Concur. TAD retains documents in accordance with the State's document retention schedule, and has since 1982. They have agreed that Financial and Management Resources staff may have access to their files when needed for periodic research and verification of exemption status, which makes it unnecessary for Financial and Management Resources to retain the documents.

Prior Audit Comment:

Management's referenced attachment (Attachment B – Audits of Qualification of Homestead and Absolute Exemptions) states that "Cities provide assistance to the District by comparing homestead property data to city water record data (or other property based records), comparing who owns the property to who is receiving the water bill." Therefore, it appears that TAD's system of "checks and balances" includes receiving comparisons of property data as recommended by the City Auditor's Office.

Implementation Status:

Not applicable. Management did not concur with this audit recommendation.

Recommendation:

The Financial and Management Resources Director should ensure that oversight of the appraisal process is increased by:

- determining the frequency and extent of monitoring that should be performed to verify the tax roll; and,
- testing as deemed necessary and communicating the results of such tests as appropriate.

Management's Response:

Do Not Concur. TAD staff members are trained and tested via an extensive certification process that is governed by the State's Board of Tax Professional Examiners. The attached 2009-2010 Reappraisal Plan from TAD explains the extent to which their employees are trained in the appraisal business (beginning p. 5). In addition, the State of Texas Comptroller's Property Tax

Assistance Division (PTAD) performs random sample testing of appraisals on behalf of the Texas Education Agency (TEA). While the PTAD does not serve as an oversight entity, they do report their findings to TAD so that the findings may be used for comparison, and the results of those samples are available to the City. During the prior tax year, PTAD studied a random sample of 280 residential and 60 commercial properties.

Prior Audit Comment:

The City Auditor's Office agrees that procedures are in place to ensure that TAD staff members are well trained and that data received from TAD has been accurate and reliable. However, the future effectiveness of controls may change due to economic, industry, regulatory and operating changes. Weakened controls could result in errors or fraud that may not be detected. Management should, therefore, periodically assess risks. Based on risk assessment results, management may determine that monitoring of property tax appraisal data is necessary to verify that controls continue to function as designed. The City Auditor's Office did not find evidence that risk assessment activities had been performed during audit fieldwork.

Implementation Status:

Not applicable. Management did not concur with this audit recommendation.