



City of Edmonton Office of the City Auditor

Assessment and Taxation Audit

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Objectives

The objective of this audit was to assess the City's property assessment and taxation operations and determine if:

1. The City's property assessments are fair and accurate
2. The City's property assessment appeal process is effective
3. Controls are appropriate to mitigate the risk of unauthorized payment and protection of information

Scope

Property assessments included both residential and non-residential property types. Residential properties are defined as units where people dwell and non-residential properties are defined as commercial and retail type properties.

All branch records for assessments and tax accounts over the last five years was considered in scope.

Statement of Professional Practice

This project was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing



Report Summary

What did we do?

We reviewed the City's property assessment processes for both residential and non-residential properties by testing five years of historical records for compliance to legislation and assessing accuracy and fairness of the assessment process.

We reviewed the City's assessment appeal process and analyzed five years of historical records related to assessment appeals.

We reviewed general program risk areas including staff training, assessment mail-outs, confidentiality of information, and management of tax suspense accounts.

What did we find?

The City provides fair and accurate property assessments and the assessment appeal process is effective. There are opportunities to improve the accuracy of supplemental assessments and better protect information.

Recommendation 1
Supplementary Assessments

Standardize the process to determine when an improvement for a supplementary assessment should be taxed.

Recommendation 2
Monitor complaint process

Monitor the outcomes of the complaint resolution process and use this information to continuously improve its effectiveness.

Recommendation 3
Conflict of Interest Disclosure

Create a branch specific conflict of interest procedure and implement a control that requires an annual declaration by branch employees that they are complying with the procedure.

Recommendation 4
TACS System Access

Conduct regular reviews of all TACS system roles to reduce redundancies and develop requirements for periodic review and approval of system access.

Recommendation 5
Annual Account Reconciliation

Ensure all suspense accounts are reconciled annually and review potential to automate reconciliation process.



Process & Legislation

Property Assessment Process

The Assessment and Taxation Branch uses the property assessment process, as legislated by the provincial government, to ensure all Edmonton property owners pay municipal property taxes and provincial education taxes.

Provincial legislation states that Alberta municipalities must use market value assessment to determine each property's share of the property tax requirement for both the municipality and the provincial education portion of property taxes. As per this legislation and standards therein, properties are assessed based on market value using mass appraisal and reflect typical market conditions for properties similar to that property. These standards help ensure that property assessments are conducted in a fair and unbiased manner.

Provincial legislation requires the City to assess properties on an annual basis. Each year, the City's assessors capture the market conditions of Edmonton's real estate market, as of July 1. They then review and analyze data received throughout the year from different sources to establish the most probable market value.

If a property was only partially complete as of December 31, an assessment notice will reflect the value of the land plus the value of the building, based on its percentage of completion. The City will subsequently issue a supplementary assessment notice that reflects the value of newly completed construction.

Provincial Legislation

The Municipal Government Act (MGA), *Matters Relating to Assessment and Taxation Regulation*, defines the manner in which municipalities must conduct assessments and taxation. This regulation sets out specific standards and requirements. Additionally, the MGA grants powers for the Province of Alberta to conduct audits to ensure that the regulated standards have been met for assessment quality. The provincial government also conducts detailed audits on the assessment procedures of municipalities to verify that they are consistent with legislation.

City Bylaws & Policies

The City of Edmonton has corresponding bylaws and policies that align to the requirements of the MGA regulations.

City Assessor Bylaw The purpose of this bylaw to establish the position of City Assessor and to designate powers, duties and functions to that position in meeting the requirements of the MGA relating to property assessment and taxation.

Annual Property Tax and Supplementary Property Tax Bylaw The purpose of this bylaw is to authorize the levying of a tax upon all taxable property shown on the assessment and tax roll, and to levy a supplementary property tax upon properties for which supplementary assessments have been made.

Tax Penalty, Interest, and Monthly Payment Bylaw Pursuant to sections 344 and 345 of the MGA, Council may impose penalties on unpaid taxes at the rates set out in the bylaw, and pursuant to section 340 of the MGA, may permit taxes to be paid by installments.

Business Improvement Area Assessment The purpose of this bylaw is to provide for the annual and supplementary assessment and taxation of businesses operating within business improvement areas, and to set the business improvement area tax rates.

City Policy C214 – Reporting of Assessment Adjustments The purpose of this policy is to ensure that City Council is aware of any tax revenue variances and the resulting impact on general government operating results due to adjustments processed between Property Tax Bylaw and Tax Billing periods.



Assessments are Fair and Accurate

Summary of findings

The City of Edmonton is conducting property assessments in a fair and accurate manner.

- The City is consistently complying with provincial legislation and assessment valuation standards.
- The Province of Alberta has indicated that assessments are accurate.
- Assessment complaint outcomes have improved since 2014.
- Changes to assessments are supported and documented.
- There is an opportunity to improve the consistency of the supplementary assessment process.

The City is compliant with provincial legislation

The City of Edmonton must comply with provincial legislation and regulations pertaining to assessment and taxation. The Province of Alberta conducts detailed process audits and quality standards audits to ensure municipalities are complying with legislation and standards.

In their audits conducted on residential properties between 2014 and 2018, Municipal Affairs concluded that “overall in our opinion, the City of Edmonton, in preparing its assessment roll, meets legislated quality standards when stratified by property group and study area for the property groups reviewed.”

Assessments are accurate

Each year the City of Edmonton must submit details on property assessments to Alberta Municipal Affairs. They use this information for audit testing. The Province of Alberta must sign-off on the audit testing prior to the mail-out of City property assessments.

Municipal Affairs audit staff indicated that there were no concerns regarding the City’s assessment methodologies and assessment accuracy.

Accuracy of assessments has improved

Successful property assessment complaints reduce assessments, which lower the amount of tax revenue owed to the City by property owners. The accuracy of original assessments can be gauged by how much the assessment base decreases due to assessment complaints.

Assessment accuracy for residential properties has increased.

2014



In 2014, the assessment base was reduced by \$41.4 million (0.041%) as a result of complaints.

2018



By 2018, the assessment base was only reduced by \$28.7 million (0.024%) as a result of complaints.

Similarly for non-residential tax assessments, since 2014 the change in the assessment tax base due to complaints has declined from \$626.9 million to \$523.2 million which indicates an improvement in overall non-residential complaint outcomes.

2014



In 2014, the assessment base was reduced by \$626.9 million (1.5%) as a result of complaints.

2018



By 2018, the assessment base was only reduced by \$523.2 million (1.2%) as a result of complaints.

Changes to assessments are supported and documented

Property assessment changes are primarily driven by data changes and market value adjustments. Data changes can include items such as development on the property and space use changes. Market value adjustments are primarily driven by available sales and rental data.

Changes to a property assessment require the completion of a correction form by an assessor, approval by a supervisor, then system updating by a clerk. All individuals must date and sign the correction form. This process helps to prevent individuals from making unauthorized changes to assessments and other personal or property information.

We reviewed 22 correction forms for non-residential changes made in 2018, which equated to a \$29.4 million decrease in the assessment base. All correction forms included supporting evidence justifying any assessment changes and indicated appropriate reviews and approvals.

Supplementary assessments are not being applied consistently

Supplementary assessments are completed for properties that were under construction as of December 31 and are completed in the following year.

Per Bylaw 18676, supplementary tax assessments are prorated to reflect the number of months during which the "Improvement was completed, occupied, located in the municipality or in operation" beginning with the first whole month in which the improvement was completed.

We representatively sampled 354 changes to property assessments from 2018 and found 48 instances of supplementary assessments not being applied correctly. There were 25 instances of over taxation and 23 instances of under taxation, which translates to a 14% error rate for all changes. This was due to inconsistent treatment of applying the bylaw in relation to the timing of issuing a supplementary assessment. Improvements, in some instances, were not taxed in the first whole month they were completed. In these cases, the supplementary assessment came either one month early or one month late.

There are two ways that Assessment and Taxation determines when to start taxing these improvements:

- An inspection or exterior viewing is completed by an assessor. This is more prevalent towards the internal supplementary assessment cutoff in November.
- By notification from the City's Development Services area that a building inspection has been conducted and the inspection passed. This is the standard practice for the majority of the year.

We found that there were inconsistencies when determining the appropriate date that the improvement is complete and taxation should begin. In our testing we found 9 instances, where the City collected taxes, even though the permit was still outstanding for more than 3 months. The implication of not having a consistent process to determine which method takes priority means that the date an improvement is taxed can be different between property owners, leading to under or over taxation.

Recommendation 1
Supplementary Assessments

Recommendation

OCA recommends the Branch Manager of Assessment and Taxation standardize the process to determine when an improvement for a supplementary assessment should be taxed.



Responsible party:

Branch Manager of Assessment and Taxation



Accepted by Management

Management Response

Assessment and Taxation takes great care to ensure compliance to all necessary legislation, regulations and bylaws in order to produce accurate, fair, and equitable property assessments. The following actions will be taken in order to meet the recommended improvements to the supplementary assessment process:

1. Update supplementary assessment process documentation to more precisely reflect Bylaw 18676. This will ensure that properties are consistently taxed in the first full month after completion. Process updates will be implemented and communicated to staff and monitored for compliance.
2. Update supplementary assessment process documentation to ensure that the 'Final Building Inspection' is used as the determining factor when issuing a supplementary assessment. The exception would be cases in which a property is confirmed to be occupied, but without a corresponding Final Building Inspection. Criteria will be established to determine when to create a supplementary assessment based on confirmed occupancy. Process updates will be implemented and communicated to staff and monitored for compliance.
3. Update supplementary assessment process documentation to clarify the assessment of properties completed prior to December 31st, but after the internal supplementary assessment deadline – amended notices will be sent after January for such properties. Process updates will be implemented and communicated to staff and monitored for compliance.



Implementation by:

1. December 2019
2. December 2019
3. March 2020



Assessment Complaint Outcomes have Improved

Summary of Findings

The formal assessment complaint process can be expensive and difficult for property owners.

The City works with property owners to attempt to resolve assessment disputes prior to engaging in the formal complaint process. Once a complaint has been filed, efforts are also made to ensure that assessments are accurate prior to the City and property owners preparing evidence and ultimately attending a review hearing. First contact resolution has the potential to improve assessment accuracy and reduce formal complaint costs.

Steps are taken to resolve complaints prior to hearing, but first contact resolution can be improved

Each year the City mails property assessment notices to property owners. If a property owner disagrees with the assessment valuation determined by the City, they can submit a formal complaint regarding the assessment to the Assessment Review Board (ARB).

When a complaint has been received, Assessment and Taxation will take steps to review the property details and the assessed value. Steps taken during the review may include discussions with the owner or a physical site inspection where required. If the assessor agrees that the assessment is inequitable or inaccurate, they can issue an amended assessment notice and resolve the complaint without having to engage in the formal complaint process.

Formal complaints can be difficult and time consuming for property owners. For the City, the labour costs to respond to a formal residential assessment complaint are generally proportionately much higher than for non-residential property.

Successfully resolving a disagreement between the property owner and the City through discussion prior to a hearing has the potential to significantly reduce complaint and labour costs to the City.

There is an opportunity to further reduce the number of complaints for residential properties. By tracking and monitoring outcomes of the complaint process, the Assessment and Taxation branch may also be able to improve the effectiveness of their complaint resolution process and

potentially may reduce the number of formal complaints.

On average, a formal appeal costs the City \$526 in labour costs to reduce a residential property owner's tax bill by \$391.



593 residential appeals per year
\$526 average labour cost per appeal
\$391 average decrease in residential tax assessment resulting from appeal



1,441 non-residential appeals per year
\$591 average labour cost per appeal
\$7,993 average decrease in non-residential tax assessment resulting from appeal

Recommendation 2
Monitor complaint process

Recommendation

OCA recommends the Branch Manager of Assessment and Taxation monitor the outcomes of the complaint resolution process and use this information to continuously improve its effectiveness.



Responsible party:

Branch Manager Assessment and Taxation



Accepted by Management

Management Response

The formal complaint process serves a valuable function to overall assessment quality – it identifies opportunities to improve data accuracy and resolves differences in opinions of value through an independent third party. However, Assessment and Taxation aims to achieve assessment accuracy *in advance* of formal hearings and plans to continue taking steps towards achieving that outcome.

1. The branch has begun to measure and track the 'ARB Revision Rate for Inquiry Accounts'. This will help to identify instances in which a

customer inquiry was received, but not ultimately resolved until a formal complaint hearing. These case studies, in turn, will lead to designing process improvements that better serve customer needs earlier in the process.

2. The residential complaint process will be reviewed in order to further align, standardize, and identify opportunities for efficiencies in order to reduce the overall labour cost per complaint.



Implementation by:

1. February 2020
2. June 2020



Program Controls are Generally Effective

Summary of Findings

The Assessment and Taxation branch has a well-developed training program to train property assessors.

There are opportunities to improve the assessment mail-out process, reduce any risk of conflict of interest, improve protection of confidential information, and improve the management of tax suspense accounts.

Assessor training is sufficient

Training is an essential part of the Assessment and Taxation branch's success, as their operations are driven by the expertise of their personnel.

New assessors take a 6 – 8 week detailed training program and take annual training related to law, mock hearings, and the assessment review process.

Assessment and Taxation monitors its training needs through a training needs survey, learning and development goals from performance reviews, feedback from the Law branch, and knowledge gaps identified by the internal training team.

Good segregation of duties in the assessment mail-out process

The City prepares a planning checklist with all tasks required for the assessment mail out. It documents the start, finish, and the individual responsible for the task. We did not identify any conflicting roles, and we did not find any segregation of duties issues.

Although not all procedures for the mail out were followed as outlined in the documentation, the deviation was caused by changes in provincial regulation and a shift to paperless assessments. These changes do not result in any significant risk.

We have discussed these deviations with management and they will be updating their documentation.

Assessors can make changes to their own accounts

Assessors have access to their own property accounts in the software. We reviewed 185 accounts and found 2 instances in which an assessor made data changes to their own account to ensure accuracy however these changes did not result in a change to property valuation.

Making changes to one's own personal property assessment would be considered a conflict of interest. These changes made in the 2 instances were supported and justified; however, assessors should not be making changes to their own accounts as this provides a potential opportunity for fraud or misconduct.

Recommendation 3
Conflict of Interest Disclosure

Recommendation

OCA recommends the Branch Manager of Assessment and Taxation create a branch-specific conflict of interest procedure and implement a control that requires an annual declaration by branch employees that they are complying with the procedure.



Responsible party:

Branch Manager Assessment and Taxation



Accepted by Management

Management Response

Resulting from early consultation with the OCA, the Assessment and Taxation branch has undertaken the development and internal publication of a code of conduct procedure to specifically address the concerns outlined within the auditor's report.

Employees will be required to review the code of conduct and declare (sign-off) that they have read and understood the terms contained within the procedure. As well, staff conduct will be monitored at all supervisory levels to ensure compliance with the code of conduct procedure.



Implementation by:

September 2019

Protection of confidential information can be improved

The Assessment and Taxation branch uses a software program that contains information for all properties within the city's tax base. The system has approximately 650 users. Users should only be able to access as much information as they require to do their jobs, and not more.

There are 62 unique system roles in use, including 2 system roles that are not in use. Maintaining an excessive number of roles requires significant resources and increases the risk of unnecessary access to confidential information.

There are controls in place to monitor employees' access requirements. There is an automatic password expiry for system access. Additionally, Assessment and Taxation is supposed to receive a notification to delete an account when an employee leaves the City.

However, Assessment and Taxation has indicated proper notification of user requirements does not always occur. For instance, employees often transfer to other positions within the City and Assessment and Taxation is not notified. We also identified one account in the system belonging to an individual no longer employed by the City and two users that were either on long term leave or no longer required system access for their job.

There is also currently no requirement for supervisors to periodically review and re-approve their employee's access requirements. Adding this requirement would reduce the risk of improper system access for employees that have changed roles or no longer require the level of access they currently hold.

Recommendation 4
TACS System Access

Recommendation

OCA recommends the Branch Manager of Assessment and Taxation

- conduct regular reviews of all TACS system roles to reduce redundancies; and
- develop requirements for periodic review and approval of system access

**Responsible party:**

Branch Manager Assessment and Taxation

**Accepted** by Management**Management Response**

The Assessment and Taxation branch identified and has prioritized a TACS Audit and Security project that will make improvements to the current TACS system.

Assessment and Taxation and Open City and Technology are currently working together to draft a business requirement document, which includes both of the auditor's recommendations. Implementation of the recommendations will be more precisely determined once the new auditing features (system improvements) are understood.

**Implementation by:**

March 2020 (tentative)

Suspense accounts require more timely reconciliation

When a tax payment is received by the City and staff cannot immediately identify the tax account to which it should be applied, the funds are held in a suspense account. Once staff have identified the applicable tax account, the funds are applied to that property account and disbursed from the suspense account to the appropriate City financial account.

There are good controls in place for this process including segregation of duties, multiple sign offs, and appropriate supporting documentation. Additionally, two of three suspense account types were reconciled annually. However, reconciliations for one suspense account type for 2016 to 2018 were not completed until 2019.

Timely reconciliation is necessary to ensure that funds are accurately and appropriately disbursed for use by the City, and so that the payee is quickly credited for their tax payment.

Disbursements from the suspense accounts were accurate

Recommendation 5
Annual Account Reconciliation

In 2018, there were 478 disbursements from suspense accounts. We examined a sample of these disbursements, determined that all had been appropriately matched to the payee account, and conclude that disbursements from suspense accounts are accurate.

Recommendation

The OCA recommends that Assessment and Taxation ensure all suspense accounts are reconciled annually and review potential to automate reconciliation process.



Responsible party:

Branch Manager Assessment and Taxation



Accepted by Management

Management Response

Due to a significant increase in payment volumes to the local improvement suspense account (up 500% from 2016 to 2018), high turnover in the Tax Accounting area, as well the manual nature of tracking payments, one suspense account process and reconciliation was not completed in a timely manner, as per normal procedures.

The following actions are being taken to improve the timeliness, efficiency and overall management of the suspense account clearing and reconciliation process:

1. Documented procedures for maintaining suspense accounts will be expanded to include the following:
 - a. Mandatory periodic reconciliation of all suspense accounts, with formal review and sign-off by the Manager of Tax Accounting and the Director of Taxation.
 - b. Local improvement payouts will be cleared by identified target dates.
 - c. With exception to payments for which a corresponding tax account cannot be identified, all other suspense account

payments will be cleared within 30 days of receipt.

2. A TACS system enhancement project has been initiated to improve the suspense account process. These system changes will facilitate ongoing reconciliation of an account within TACS and eliminate the need to maintain separate spreadsheets for tracking.



Implementation by:

1. August 2019
2. TBD - request for system enhancements in queue