

INTERNAL AUDIT REPORT

2012-10

Real Property Exemptions
Property Appraisal Division
Finance Department

December 20, 2012

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Mayor Dan Sullivan

December 20, 2012

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-10, Real Property Exemptions, Property Appraisal Division, Finance Department** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of Real Property Exemptions maintained by the Property Appraisal Division. The objective of this audit was to determine if real estate property tax exemptions were properly administered. Our audit included reviewing files for documentation to support the exemption and testing selected exemptions for compliance with statutory requirements. Our audit did not include Residential, Senior Citizens, and Disabled Veteran Property Tax Exemption Programs.

Overall, the majority of exemptions granted by the Property Appraisal Division were properly administered. However, the administration of some of the exemptions could be improved. Specifically, we found that the Property Appraisal Division did not perform annual reviews of all exemptions and exemption files did not always contain sufficient documentation to support the decision to grant an exemption. Finally, the approvals for late filings did not comply with Anchorage Municipal Code.

There were three findings in connection with this audit. Management was partially responsive to one of the findings and recommendations and unresponsive to the other two.

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**Internal Audit Report 2012-10
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Finance Department**

Introduction. The Property Appraisal Division (Division), headed by the Municipal Assessor, is charged with locating, identifying and valuing all taxable real property and personal property within the Municipality of Anchorage (Municipality) in order to provide a fair and equitable basis for taxation. The Division maintains descriptions of real property, maintains maps showing the ownership and tax districts for the Municipality, and processes property tax exemptions. According to Division staff, there are 96,356 real property records in the Municipality of which 4,965 are exempt and 49,292 are partially exempt. Property tax exemptions are granted based on three elements: (1) property ownership, (2) property use, and (3) the statutory definition. Taxpayers receiving an exemption may be required to apply through the Division. Alaska State Law includes a range of mandatory exemptions (Alaska Statute 29.45.030, *Required exemptions*) and optional exemptions (Alaska Statute 29.45.050, *Optional exemptions and exclusions*). According to the Computer Assisted Mass Appraisal (CAMA) database records maintained by the Division, the following data summarizes exemptions granted as of June 2012:

Senior Citizen or Disabled Veteran Exemptions: Alaska residents 65 years of age or older, disabled veterans and the widow or widower of a disabled veteran, or a resident at least 60 years old who is the widow or widower of a person who qualified for a senior exemption are exempt from taxation on the first \$150,000 of the assessed value of the real property (Application required. 12,196 parcels partially exempt).

Religious, Charitable, Educational, Hospital, and Cemetery Exemptions: Property used exclusively for nonprofit religious, charitable, educational, hospital or cemetery purposes (Application required. 926 parcels exempt).

Native Exemptions: Real property interests conveyed to a Native individual, Native Group, Village or Regional Corporation which are not developed or leased to third parties or which are used solely for the purposes of exploration are exempt from State and local real property taxes by United States Code, Title 43 (No application required. 460 parcels exempt).

Veteran's Organization Exemptions: Property of a nonbusiness organization composed entirely of persons with 90 days or more of active service in the armed forces of the United States (Application required. 16 parcels exempt).

Fire Protection System (Sprinkler) Exemptions: A structure containing an approved fire protection system that is in working condition and incorporated as a fixture or part of the structure. The exemption is limited to an amount equal to 2 percent of the value of the structure (Application required. 715 parcels exempt).

Residential Exemptions: Residential property may be exempted from taxation by ordinance ratified by the voters at an election. A residential exemption may not exceed 10 percent of the assessed value, up to a maximum of \$20,000, for any one residence (Application required. 36,326 parcels exempt).

Community Purpose Exemptions: The property of an organization not organized for business or profit-making purposes and used exclusively for community purposes (Application required. 33 parcels exempt).

Regional Housing Authority Exemptions: Properties that have been developed, improved, or acquired with federal funds for low-income housing and are owned or managed as low-income housing by regional housing authorities (No application required. 83 parcels exempt).

Deteriorated Property Exemptions: Real commercial property not used for residential purposes or that is multi-unit residential property with at least eight residential units (Application required. 4 parcels exempt).

Other Exemptions: Other exemptions based on Alaska State law include municipal, state, and federal properties, and utilities (No application required. 3,498 parcels exempt).

Objective and Scope. The objective of this audit was to determine if real estate property tax exemptions were properly administered. Our audit included reviewing files for documentation to support the exemption and testing selected exemptions for compliance with statutory requirements. Our audit did not include Residential, Senior Citizens, and Disabled Veteran Property Tax Exemption Programs.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was requested by the Assembly.

Overall Evaluation. Overall, the majority of exemptions granted by the Division were properly administered. However, the administration of some of the exemptions could be improved. Specifically, we found that the Division did not perform annual reviews of all exemptions and exemption files did not always contain sufficient documentation to support the decision to grant an exemption. Finally, the approvals for late filings did not comply with Anchorage Municipal Code (AMC).

FINDINGS AND RECOMMENDATIONS

1. Exemptions Not Reviewed Annually.

- a. **Finding.** The Division did not perform annual reviews of all exemptions as required by AMC 12.05.045, *Assessor*. Although the Division reviews properties with ownership changes, it does not annually review exemptions without ownership changes to determine eligibility. AMC 12.05.045 states, “The assessor shall review annually those properties that are exempt from taxation to determine whether such properties continue to qualify for an exemption.” The annual review of exemptions ensures that properties are correctly assessed and validates the ownership and usage of the properties. Although AMC states that all exemptions should be reviewed annually, some mandatory exemptions were not reviewed since the Division had no option but to grant the exemption. A similar finding was included in Internal Audit Reports 2006-14 and 2001-7.
- b. **Recommendation.** The Municipal Assessor should perform annual reviews for all exemptions in accordance with AMC 12.05.045 to ensure tax exempt properties continue to qualify for the exemption or revise the AMC to eliminate the requirement.
- c. **Management Comments.** Management stated, “Active monitoring of changes to recorded title, public information review, and periodic field inspections does constitute annual review of exempt property. The primary elements of an exemption determination are based on the ownership and use of the property depending on the type of exemption. Division staff reviews property ownership as part of the first consideration for an exemption determination. Secondly, the Division confirms that the property is in use for nonprofit exempt purposes. In the case of senior citizen,

disabled veterans and residential exemptions, there are specific requirements related to occupancy and other criteria related to each exemption.

“Property Appraisal annually reviews exemption determinations employing four elements depending on the type of exemption. First, all property ownership records are monitored to confirm continuance of ownership to the exempt entity or person through review of ownership records held at the State of Alaska Recorder’s Office. Second, annually division staff inspects over 16,000 properties throughout the Municipality of Anchorage and notes any changes to exempt properties for review. Third, the division monitors public information concerning exempt properties and owners. Finally, division staff conducts annual reviews of exempt property for ownership and use conformance to exemption programs to include cross reference to Alaska Permanent Fund Dividend information, public information reviews (business licenses, articles of incorporation, web sites and periodicals), and property inspections.

“Improved information systems that document the annual review and inspection related to exemption status is anticipated to be enhanced in the new Computer Assisted Mass Appraisal system anticipated for implementation in 2013.”

- d. **Evaluation of Management Comments.** Management comments were not responsive to the audit finding and recommendation. AMC 12.05.045 clearly states that the Assessor is to review all properties exempt from taxation to determine if these properties continue to qualify for an exemption. Management’s response to the audit finding confirms that all exempt properties are not reviewed annually.

2. **Exemption Files Contained Insufficient Documentation.**

- a. **Finding.** Exemption files did not always contain sufficient documentation to support the decision to grant an exemption. Specifically, 27 of 60 exemptions we reviewed had one or more of the required documents missing in their files. For example, 10 of 20 religious exemption files did not include copies of articles of incorporation, Internal Revenue Service determination of nonprofit status, usage statement, contracts for use of the property by other than the applicant organization, and financial disclosures. According to Division staff, some of these documents were missing because the exemptions were granted many years ago and the supporting documents were not required at that time. In addition, no supporting documentation was provided for the 10 sprinkler exemptions we sampled because Division staff could not locate any of the file folders.
- b. **Recommendation.** The Municipal Assessor should ensure that exemption files are complete and support the decision to grant the exemption.
- c. **Management Comments.** Management stated, “Documentation relevant to exemption status is contained in two data systems. The primary system is the CAMA computerized data system that retains information regarding ownership, location, physical description, inspection dates, staff comments, and exemption status. This system is generally adequate and contains sufficient data to administer the exemptions. A new CAMA system is anticipated for implementation in 2013 that will enhance data retention and the review of exempt properties.

“The second data system is a paper file system that includes the original application and the documents and correspondence that supports the exempt status. Historically, exemptions were granted based on information required by prior Assessors that is not

as complete as the current requirements. As part of the annual inspection process, management envisions that exempt property owners will provide the current required documentation to enhance the paper documentation contained in division files. Additionally, the anticipated new Computer Assisted Mass Appraisal system has the potential to provide a digital imaging system that can replace the paper information in a much more efficient manner in the future.”

- d. **Evaluation of Management Comments.** Management comments were partially responsive to the audit finding and recommendation. The primary source for documenting an exemption is the paper application that is submitted along with supporting documentation. Even with the potential of a new digital imaging system, CAMA still needs supporting documentation to ensure there are not errors.

3. **Approvals for Late Filings Not in Compliance with Municipal Policy and Procedure.**

- a. **Finding.** The Municipal Assessor both approved and denied late applications for the Residential, Senior Citizen, and Disabled Veteran Property Tax Exemption Programs contrary to Municipal Policy and Procedure (P&P) 24-18, *Processing Late Filed Applications for the Senior Citizen/Disabled Veterans Property Tax Exemption Program*. P&P 24-18 states, “If the applicant meets all eligibility requirements for the program, except timeliness in filing, the Municipal Assessor shall review the letter of explanation and the reasons stated for the lateness in filing. After review, the Assessor shall forward the application and all supporting documentation to the Chief Fiscal Officer with a recommendation to either approve or deny the late filed application.” However, our review revealed that the final determination to either approve or deny most late filings was made by the Municipal Assessor and not by the Chief Fiscal Officer (CFO). In addition, Division staff were unable to provide a written signature

authority delegating to the Municipal Assessor the approval of late filings. Prior Internal Audit reports 2006-14 and 2001-7 addressed a similar finding.

- b. **Recommendation.** The Municipal Assessor should ensure that late applications are sent to the Chief Fiscal Officer for approval as required by P&P 24-18 or revise P&P 24-18 to allow the Municipal Assessor to approve late filings.

- c. **Management Comments.** Management stated, “The auditors are correct in noting this deficiency in historical written authorizations prior to 2012. In 2012, management developed a documented process for the administration of late applications for exemptions thru the CFO’s office and the Assessor. The required administration for late exemptions is consistent with administrative policy regarding both the CFO and Assessor’s responsibilities for approval of late exemptions.”

- d. **Evaluation of Management Comments.** Management comments were not responsive to the audit finding and recommendation. In management’s response it is unclear to us what “...consistent with administrative policy...” actually means. Policy and Procedure 24-18 clearly states that the Assessor shall forward to the CFO the application, all supporting documentation, and a recommendation to either approve or deny the late filed exemption application. As of May 2012 we could only identify 5 of 37 requests that were forward to the CFO when we compared the Assessor’s late submission log to the CFO’s late submission log.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:
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