

AUDITOR GENERAL

Halifax Regional Municipality



Property Tax Management Audit

January 2019

January 3, 2019

The following audit of **Property Tax Management**, completed under section 50(2) of the Halifax Regional Municipality Charter, is hereby submitted to the Audit and Finance Standing Committee of Regional Council.

Respectfully,

Original signed by

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Summary

Conclusion

Overall, Finance and Asset Management effectively manages its property tax activities. Property tax billing and collection is consistent with significant HRM Charter and policy requirements. In most instances, staff attempted to collect overdue property taxes.

There is room for improvement in certain areas. We found many users have access to change assessment values in the property tax system which they should not have. This poses a risk of fraud or accidental errors which could change property taxes payable and go unnoticed. Additionally, the property tax information system has confidential, personal information and access to it should be limited. This system has significant weaknesses and should be replaced. Tax staff should also verify tax agreement information provided by large commercial and industrial property owners used to calculate taxes owing.

Key Take-aways

- Property tax billing processes generally consistent with legislative and policy requirements
 - All tax bills sampled had the correct property assessment values, general tax rates, and area tax rates.
- Amounts recorded by Municipality for 2016-17 and 2017-18 general and area rate taxes were reasonable.
- HRM revenue staff do not verify accuracy of tax agreement information submitted by four large commercial and industrial property owners used in calculating property taxes owed.
- Property tax information system has significant weaknesses.
- 156 users had access to the property tax system they should not have. Many are former HRM employees or current employees who no longer require access for their role.
 - Monthly monitoring meant to address issues is not effective.
- Management told us the property tax IT system is a big risk.
 - No up-to-date plan, with detailed deadlines, to replace
- Significant issues should be addressed to extent possible in existing system since it will continue to be used until a new system is implemented.

Audit Results

Administration of Property Taxes

Billing process follows HRM Charter and policy

HRM's property tax billing process is consistent with the significant requirements outlined in the HRM Charter and Administrative Order 18 (the Municipality's revenue collection policy).

We tested thirty tax bills. All the tax bills sampled had the correct property assessment values, general tax rates, and area tax rates. All were issued to property owners six weeks prior to the due dates of April 30th or October 31st each year, as required by policy.

General and area rate taxes recorded accurately

We completed a reasonability test to assess the accuracy of general and area rate property taxes recorded for fiscal years 2016-17 and 2017-18. We found taxes calculated were reasonably accurate.

The Property Valuation Services Corporation (not-for-profit organization responsible for assessing all property values in Nova Scotia) provides assessment values for all properties in HRM. Staff use these assessment values to calculate property taxes. We selected 30 property accounts from Property Valuation Services Corporation information and compared the assessment values to HRM's property tax system. All were correctly recorded.

Information for large commercial and industrial property owners not verified

The HRM Charter allows the Municipality to enter into a tax agreement with a property owner, with taxes payable according to the terms of the agreement. HRM has eight such agreements, seven with large commercial and industrial property owners, and one with Millbrook First Nation.

- The taxes payable for five agreements are based on external information which we expected HRM staff would verify.
 - One agreement had an external audit certificate confirming the amount.
 - In the remaining four agreements, HRM staff did not verify the accuracy of data provided by the property owners to support the taxes owing calculation.

Administrative Order (AO) 18 (Revenue Collections Policy):

- Guidelines for staff and the public on how different HRM revenues are processed.
- Billing policy for property taxes:
 - Residential and commercial properties billed twice a year
- Collection policy for property taxes:
 - Notices and reminders
 - Payment arrangements
 - Conditions that prevent a property being up for tax sale

- Three agreements are based on information HRM has and require no external verification.

Recommendation 1

Finance and Asset Management should confirm accuracy of data used in calculating taxes payable under tax agreements before issuing tax bills.

Management Response

Management agree confirming the accuracy of data used in calculating taxes payable under tax agreements is a prudent business practice and will be implementing this recommendation. We will build this process into our regular annual external audit cycle by requesting our external auditor verify and provide a confirmation of data and revenue accuracy.

Management of Tax Collection Process

Overdue account collection followed policy

Based on our sample of property tax collections, we found staff are consistent in dealing with overdue property taxes.

Based on policy, we expected 16 of our 30 samples of overdue property tax accounts to have a preliminary notice (advance notice of tax sale proceedings) and five of the 30 samples to have a notice of intention to sell. The notices were issued as appropriate for all samples.

Policy requires staff notify clients of all amounts outstanding for more than nine months which may place the properties at risk of tax sale. We expected that 19 of the 30 samples tested to have this reminder letter. Eighteen samples had letters issued to the property owners for accounts overdue more than nine months. The remaining sample had no communication with the property owner.

Audit sampling of overdue taxes:

We selected 60 samples of overdue collection accounts.

- 30 samples were tested for consistency with the general collection processes.
- 30 samples of accounts overdue for three preceding fiscal years were checked for consistency with the legislative tax sale conditions.

HRM Charter requirements followed when considering tax sales

The HRM Charter requires properties be sold if taxes are outstanding for the last three fiscal years, unless certain conditions are met. Of the 60 overdue collection accounts we tested, 40 were past due by more than three years. We found all 40 followed the HRM Charter requirements.

Efficiency of collection processes

We found 24 of 28 overdue tax accounts of the 60 samples tested had evidence of payment or communication between the HRM collection department and the property owner within a year. There was no communication with property owners for four overdue tax accounts. Although the business unit attempted to recover the overdue taxes for 85% of the samples tested, it could improve monitoring to prevent communication gaps. The remaining 32 samples were not applicable due to the circumstances of the accounts; for example, some accounts may have ongoing legal or title issues.

The Municipality is not required to put a property up for tax sale if:

- (a) the solicitor for the Municipality advises that a sale of the property would expose the Municipality to an unacceptable risk of litigation;*
- (b) the amount of taxes due is below the collection limit established by the Council, by policy;*
- (c) the property has been put up for sale three times in the preceding three years and no satisfactory offer has been made with respect to it;*
- (d) the taxes have been deferred pursuant to a by-law; or*
- (e) the Municipality and the taxpayer have entered into a tax arrears payment arrangement and the taxpayer is in compliance with the agreement.*

Reference: HRM Charter, Section 148 (4)

HRM's Property Tax Information System

System weaknesses and other issues

We reviewed a list of 261 users who have access to HRM's property tax system, and found that 156 users – 60% – have access they should not have.

Category of users	Number of users
Former HRM employees	56
Former temporary employees, students, or set up as employees but did not start work with HRM	22
Employees outside Finance and Asset Management business unit	60
Employees in Finance and Asset Management business unit outside revenue and accounting departments	10
Generic accounts (not specific to one user)	8
Total	156

Information, Communication and Technology staff told us this is due to a lack of processes when an employee retires or changes job roles within HRM, which may result in an employee having indefinite access to the system.

We planned to further evaluate the list of the 156 users with access they do not require, but Information, Communication and Technology staff told us there is no efficient way to tell which users have access to look at information or make changes in the property tax system. Staff would need to manually check each person’s access. The inability to easily identify access is a significant flaw in the property tax system.

We also could not tell whether changes to the property tax system were appropriate because the system does not log details of changes made. This is another significant weakness in the system.

The property tax system has eight generic accounts which are not specific to an individual user. Information, Communication and Technology told us generic accounts were created because HRM has limited licenses for employees who take payments at customer service centres. Information, Communication and Technology cannot determine which employees are using the generic user accounts. This means management does not know who has made an entry and leads to a risk fraud or error may occur which could not be traced. Information, Communication and Technology told us that access for six of the generic accounts has been removed; however, the remaining two accounts are still in use.

Recommendation 2

Finance and Asset Management should review access to its property tax system and remove access if not required for an employee’s current job duties.

Management Response

A known gap exists due to business requirements and system limitations that provide system access for staff not directly involved in the tax bill procedure, these anomalies are known and

approved by management who acknowledge a modern solution will resolve this gap. System access has been reviewed and ICT is working with Revenue to confirm all roles that require access. ICT will work with Management to review security annually. System access for revenue management is being aligned with other solutions access processes within ICT to ensure all access is maintained per positions requirements. Controlling access will be maintained as per Recommendation 3.

Recommendation 3

Finance and Asset Management, and Information, Communication and Technology should establish processes to grant access only to individuals who require it for their jobs and processes to remove access when employees change jobs in HRM or leave the Municipality.

Management Response

The onboarding process to grant employees access is established. There was a gap when employees left HRM or changed duties and ICT have an established process and confirmed Hansen is now included in this process. A daily report provides ICT with notification from SAP for employee changes enabling daily access updates. A separate process is being worked through for non-employee changes. To allow timely security updates ICT is working with payroll and HR to ensure managers submit employee actions for entry into SAP in a timely manner. ICT will work with management to update access and segregation of duties requirements and signoff for access with all access audited quarterly. These changes are expected to be in place and fully operational by 2nd quarter 2019.

Information, Communication and Technology staff provided a list of user groups that can modify assessment values and tax rates. The ability to change tax rates was appropriately limited to a small number of users. However, we determined that 84 users can modify assessment values.

Management attempted to address this risk by monthly monitoring of changes in total assessment values in the property tax system. However, 23 of the 84 users have access which allows them to make changes that cannot be detected by the monitoring process. This poses a fraud risk and a risk that accidental errors could be made and go unnoticed, which could change taxes payable.

Additionally, the monitoring process is ineffective because the individual doing the monitoring can also make changes to assessment values in the system. The person monitoring changes should not also have access to make changes.

Access to the property tax system should be highly-restricted and well-monitored because the system contains tax payer personal information.

Recommendation 4

Finance and Asset Management should monitor changes to the property tax system. This should be done by management who cannot also make changes.

Management Response

Management have limited ability to monitor changes in the property tax system due to reporting and segregation limitations associated with the current system. There are controls in place to verify the reasonability and accuracy of the overall billed amounts. Since the audit, management has implemented a monitoring system so the changes are monitored by management who cannot also make changes.

New property tax information system needed

Finance and Asset Management told us the current system is the biggest risk to the unit. Management told us they plan to replace it with a new system. However, the plan is not up-to-date and it has no deadlines to put a new system in place.

Recommendation 5

Finance and Asset Management should develop a detailed plan, with dates, to implement the planned replacement property tax system. Any new system should be robust enough to prevent access by employees whose current job duties do not require it and close the gaps in the current system.

Management Response

ICT is actively revising the plan given new factors that were identified that support the implementation of a new solution. Activities are ongoing to support the new timelines with recent workshops supporting the development of the plan. December and January have further planning sessions to provide greater detail to the current high-level dates and implementation of 2020 this includes the ramp up of a project team in early 2019. One of the key project planning actions required is confirmation of project budget which will take place in January 2019 with Capital Budget.

The property tax system issues identified in this report are significant and should be addressed to the extent possible in the existing system since it will continue to be used until a replacement system is implemented and operational.

We reviewed the back-up processes for the property tax system's data and found that Information, Communication and Technology regularly back up data and store the backups offsite. This is a good practice.

Background

Nearly 80% of HRM’s revenue comes from property taxes. The Revenue Department (Finance and Asset Management Business Unit) is responsible for the administration of property taxes. The Department coordinates billing and collection, and administration of overdue accounts.

HRM has different tax rates for residential, commercial and resource properties which vary by urban, suburban and rural areas. Taxes are generally based on the taxable assessment value of the property multiplied by the applicable tax rate. The tax rates are determined and approved by Regional Council. The Municipality also determines area tax rates for services provided in addition to those covered by general rates. The Nova Scotia Assessment Act requires that the Property Valuation Services Corporation determine property assessment values in Nova Scotia.

Tax billing

- Tax bills covering both general and area rate taxes are sent in March and September each year. The bills are due on the last working day of April and the last working day of October.
- Tax agreements are billed in accordance to the terms of the agreement.

Tax collection

In addition to the HRM Charter, Administrative Order 18 further outlines policies that guide the revenue collection practices for HRM

About the Audit

We completed a performance audit of the management of Property Taxes by the Finance and Asset Management business unit, focusing on general and area rate taxes, and tax agreements. The audit scope did not include payments in lieu of taxes, and taxes under the deferral and exempt programs.

The purpose of the audit was to determine whether HRM effectively and efficiently manages its property tax activities to ensure compliance with applicable legislation, policies, and guidelines. Our role is to express an independent audit opinion of this area.

The objectives of the audit were to determine whether Finance and Asset Management:

- effectively manages the property tax processes to ensure compliance with applicable legislation, policies, and guidelines; and
- efficiently manages property tax collection processes.

We developed the criteria for this audit. These were discussed with, and accepted as appropriate by, management of Finance and Asset Management. The criteria used for this audit were as follows.

- Processes for administering property taxes should comply with applicable legislation, policies, and guidelines.
- Property taxes should be accurately calculated.
- Collection processes for recovering overdue property tax accounts should be efficient.

The audit period included activities from April 1, 2016 to May 31, 2018. Information from outside the audit period was considered as necessary.

Our audit approach included: reviewing legislation, policies, procedures; interviews with management, tax and collection staff; data analysis; and examining property tax billing, payment and collection records and other relevant documentation on a sample basis.

This audit was conducted in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001 – Direct Engagements published by Chartered Professional Accountants of Canada.

We apply the Canadian Standard on Quality Control 1, and our staff follow the Chartered Professional Accountants of Nova Scotia Code of Conduct.

Appendix 1 – Recommendations and Management Responses

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Contact Information

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