

# **TORONTO** STAFF REPORT

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October 18, 2005

To: Audit Committee  
From: Auditor General  
Subject: Terms of Reference – Audit Project

Purpose:

The purpose of this report is to provide the Audit Committee with the terms of reference for the review of Tax Billing, Appeals and Assessments – Revenue Services Division, included in the 2005 Audit Work Plan.

Financial Implications and Impact Statement:

There are no financial implications resulting from the receipt of this report.

Recommendation:

It is recommended that this report be received for information.

Background:

Each year, the Auditor General's Office provides a work plan to the Audit Committee summarizing audit projects to be undertaken. The audit process requires the development of terms of reference for each project providing background, objectives and reporting timeframe for the respective assignment.

Comments:

The terms of reference for the Tax Billing, Appeals and Assessments - Revenue Services Division are provided as an appendix to this report. It should be noted that the terms of reference have been forwarded for information purposes to senior management of the respective program area and audit work has been initiated.

Conclusion:

Terms of reference for audit projects are important in providing direction and focus for the work undertaken. They also specify the background, scope and objectives of the review, as well as the expected reporting date. It is important to understand that the audit process is not restricted to those areas contained in the terms of reference.

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gp/cg  
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Attachment:

Appendix 1: Tax Billing, Appeals and Assessments – Revenue Services

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AUDITOR GENERAL'S OFFICE  
TERMS OF REFERENCE

Division: Revenue Services  
Project Name: Tax Billing, Appeals and Assessments  
Year of Audit: 2005

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A. Introduction/Background

The Auditor General's 2005 Work Plan includes a review of the tax billing, appeals and assessment operations in the Revenue Services Division, Finance Department. Revenue Services is responsible for processing and managing property tax billings, collections and tax adjustments.

The Municipal Property Assessment Corporation (MPAC) is responsible for assessing properties in the Province of Ontario. In 1998, the Province reformed the property assessment and taxation system in Ontario with the introduction of Current Value Assessment (CVA). The CVA of a property represents an estimated market value in the applicable reference year.

Tax rates are applied to the current value assessment (CVA) of each property according to a property's classification (e.g., residential, multi-residential, commercial, industrial, etc.). The total tax bill may be subject to certain adjustments, such as that arising from phasing-in CVA tax changes and/or capping of tax increases assessment appeals and other tax adjustments.

Property owners can file a formal appeal with the Assessment Review Board (ARB) when they believe property has been valued incorrectly or information identified on the Notice of Assessment is inaccurate. A successful assessment and/or tax appeal results in the recalculation of the property's tax liability and the City has an obligation to refund overpayments resulting from the appeal.

An adjustment to a taxpayer's account may also occur under section 357 of the Municipal Act, 2001 which allows Council to cancel, reduce or refund taxes levied on property due to building demolition, reclassification or fire. Additionally, section 358 of the Municipal Act, 2001 allows Council to make decisions relating to errors of fact in the preparation of the assessment roll for the current and previous two years.

The Administration Committee of Council has been authorized to receive and provide recommendations on tax appeals, other than poverty appeals, pursuant to section 357 and 358 of the Municipal Act, 2001.

Applications to Council for section 357 and 358 tax appeals are received by Revenue Services staff, who process the application, prepare a recommendation and calculate the tax adjustment, if required. Both section 357 and 358 tax appeals involve the MPAC and the Assessment Review Board. However, in the matter of section 358 tax appeals the decision of Council is final and cannot be appealed to the ARB.

There are a number of factors that impact the City's efforts to administer assessment and tax appeals and collect property taxes. These are as follows:

- The accuracy, uniformity of assessed values and completeness of the assessment roll(s) prepared by the Municipal Property Assessment Corporation (MPAC) impacts the number of appeals;
- Municipalities can have difficulties processing appeals when inadequate information is provided by MPAC;
- Other factors, such as "phase-in percentages and claw back" amounts, impact the final amount credited or refunded both for the appeal year and the previous years. These factors can also cause a delay in processing tax adjustments due to the complexity of the calculation; and
- Taxpayers withhold payments when they know the amount billed does not reflect the amount of taxes they will ultimately have to pay.

This review was selected based on the potential for control risks and exposures related to the administration of assessment and tax appeals and accompanying tax adjustments.

## B. Financial/Operational Highlights

Property taxation is an important source of City revenue, financing most of the services provided by the City of Toronto. In 2004, property taxes accounted for \$3.1 billion or approximately 45 per cent of the City revenues.

Revenue Services administers over 600,000 property tax accounts and collects approximately \$5 billion (municipal and school purposes) in annual property tax revenue. On an annual basis the Division issues approximately 1.3 million tax bills, processes in excess of 3.6 million payment transactions and handles approximately 40,000 assessment and tax appeals and other related billing and phase-in adjustments, resulting in tax reductions in excess of \$200 million.

In the 2004, Audited Consolidated Financial Statements for the City of Toronto it is noted that "property taxes continue to be the slowest growing revenue source for the City. During this period (the 2004 year), assessment growth has been minimal. Gains made by new construction have been offset by conversions of non-residential to residential (which is taxed at a much lower rate) and by property tax appeals on market value assessments."

C. Key Financial/Operational Issues and Controls

The Revenue Services Division has introduced various enhancements to the tax and water billing system over the past few years along with organizational and operational improvements in its business units. These changes have been implemented with the expectation of improving service delivery in the Revenue Services Division, including the processing and management of assessment and tax appeals.

D. Audit Objectives and Scope

The objectives of this review are to:

- assess the efficiency and effectiveness of assessment and tax appeals processing and administration;
- assess the extent of compliance with applicable laws, regulations and City policies;
- review internal controls and operating procedures to ensure the accuracy and completeness of transactions related to the recording of assessment and tax appeals to taxpayers' accounts;
- identify opportunities for cost savings; and
- provide management with recommendations to improve the processing and administration of assessment and tax appeals including tax adjustments and refunds.

Information obtained in the review will be used to address current policies, procedures and practices, resource allocation, efficiency and effectiveness of manual and automated processes, information technology utilization, performance measures and targets, monitoring activities and reporting mechanisms.

Audit methodology will include a review of policies and procedures, interviews with relevant City staff, site visits, examination of documents and records, evaluation of management control practices and measures, review of relevant Council and Standing Committee reports, data and any other procedures deemed appropriate.

E. Expected Reporting Date

Audit Committee Meeting: April 2006