



**AUDITOR GENERAL'S
REPORT
ACTION REQUIRED
with Confidential Attachment**

**Audit of Water Billing and Collection – Phase II:
Part 1 – Incorrect Vacant Land Status Properties
Reduces City's Property Tax Revenue**

Date:	October 13, 2016
To:	Audit Committee
From:	Auditor General
Wards:	All
Reason for Confidential Information:	<ol style="list-style-type: none">1. This report deals with personal matters about an identifiable person.2. This report is about litigation or potential litigation that affects the City or one of its agencies and corporations.
Reference Number:	

SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. Our first report on Phase I on water collections was tabled at the March 31, 2016 Council meeting. During Phase II of the water billing and collections audit, the Auditor General performed an analysis of properties classified as 'vacant land' with ongoing water consumption to determine the appropriateness of the property classification and its impact on property valuations and property tax revenues.

The Phase II water billing and collection processes audit is still underway. The Auditor General is reporting separately at this time because of the possibility of potential property tax revenue leakage related to properties incorrectly classified as vacant land.

This report includes 5 audit recommendations. The implementation of these recommendations will result in improving the administration of building permits, inspections, and review of vacant land property assessments.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Chief Building Official and Executive Director to develop an action plan to resolve dormant permits. The Action Plan should include:
 - a. A communication strategy to educate property owners about their responsibilities and obligations to inform the City about the progress of their construction project.
 - b. A strategy to prioritize the review of permits that have been open for an extended period of time and are classified as vacant land.
2. City Council request the Director, Revenue Services and the Chief Building Official develop exception reports to monitor the classification status of vacant land properties, such as:
 - a. Reports identifying properties with completed construction still coded as vacant land.
 - b. Reports of properties with open permits coded as vacant land and consuming water.
3. City Council request the Director, Revenue Services review the reported vacant land properties to identify such properties to the Municipal Property Assessment Corporation (MPAC) to ensure that appropriate property taxes may be billed and recovered.
4. City Council request the Chief Building Official and Executive Director to implement measures that will deter the occurrence of no show inspection visits. The measure should include an assessment of whether a fee can be charged to property owners for 'no show' inspection visits where these visits are pre-scheduled.
5. City Council request the Director, Revenue Services in consultation with the Chief Building Official and Executive Director coordinate with Municipal Property Assessment Corporation (MPAC) to identify data sources and reports that may improve on the appropriate and timely update of property classification and assessment by MPAC.
6. City Council not authorize the public release of the confidential information in Confidential Attachment 1 (October 13, 2016) which deals with personal matters about an identifiable person, and is about litigation or potential litigation that affects the City or one of its agencies and corporations.

Financial Impact

We estimate that the City could better utilize its resources by improving controls to reduce the unnecessary costs incurred in the range of \$500,000 - \$750,000 per year on 'no-show' inspections.

Improvements in reporting and monitoring of property classification will result in collecting additional property tax revenue that the City may have been potentially losing. The overall financial impact is not determinable at this time.

DECISION HISTORY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. This audit is the result of our analysis of properties classified as 'vacant land' with ongoing water consumption. We then extended the water billing audit to determine the appropriateness of the property classification and its impact on property valuations and property tax revenues.

The Auditor General has issued a number of reports in the areas concerning water billing and collections, property taxes and building inspections. The reports issued during the last five years are listed below:

- Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening, Revenue services Division – February 17, 2016
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU5.3>)
- Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs), Revenue services Division - October 3, 2015
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU4.3>)
- Improving the Quality of Building Inspections, Toronto Building Division – January 15, 2014
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.AU14.7>)
- Building Permit Fees, Improving Controls and Reporting, Toronto Building Division - January 23, 2012
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.AU6.6>)

COMMENTS

The relationship between water billing and properties classified as vacant land prompted us to review a number of vacant land properties in detail. The results of our analysis of a sample of properties indicate:

- The City is incurring potential property tax revenue losses due to incorrectly classified properties

- No show inspections (i.e. property owner unavailable) are costing the City money
- Improvements required in reporting and communication between City Divisions and MPAC

Improvements in reporting and monitoring of property classification will result in collecting additional revenue from property taxes that the City may have been potentially losing. Though difficult to determine, from a sample of 38 properties we reviewed as of December 31, 2015, we estimate the City potentially incurred accumulated property tax revenue loss of approximately \$250,000 due to incorrectly classified vacant land properties. In 2016, certain property classifications were corrected, however, the potential for ongoing property tax revenue loss would be approximately \$100,000 annually if the remaining property classifications are not corrected on a timely basis. These amounts are related to sample properties only, the City-wide impact for all incorrectly classified properties would be much larger.

We also estimate that the City could better utilize its resources by improving controls to reduce the unnecessary costs incurred in the range of \$500,000 - \$750,000 per year on 'no-show' inspections.

The report entitled "Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue" is attached as Appendix 1. Management's response to each of the recommendations contained in the audit report is attached as Appendix 2. Additional information relating to selected properties from our audit sample is attached as Confidential Attachment 1.

CONCLUSION

This report identifies a number of opportunities to enhance the administration of building permits, inspections and review of vacant land property assessments.

We estimate that the City could better utilize its resources by improving controls to address the unnecessary costs incurred in the range of \$500,000 - \$750,000 per year on 'no-show' inspections. Improvements in reporting and monitoring of property classification will result in collecting additional property tax revenue that the City may have been potentially losing.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

Appendix 1: Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City’s Property Tax Revenue

Appendix 2: Management’s Response to the Auditor General’s Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City’s Property Tax Revenue

Attachment 1– Confidential Information:
Audit of Water Billing and Collection – Phase II: Part 1 – Incorrect Vacant Land Status Properties Reduces City’s Property Tax Revenue

AUDITOR GENERAL'S REPORT

**Audit of Water Billing and Collection –
Phase II:**

**Part 1 – Incorrect Vacant Land Status Properties
Reduces City's Property Tax Revenue**

October 13, 2016

Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD, ICD.D
Auditor General



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND	4
AUDIT RESULTS	6
A. Potential Property Tax Revenue Losses Due to Incorrect Classification of Properties	6
A.1. Lack of Adequate Monitoring and Timely Update of Open Building Permits Results in Undervalued Property Assessments	7
A.2. Lack of Adequate Monitoring and Timely Update of Closed Building Permits Results in Undervalued Property Assessments	9
B. No Show Inspections (i.e. Property Owner Unavailable) Are a Waste of Valuable City Resources	12
C. Improvements Required in Reporting and Communication Between City Divisions and MPAC	13
CONCLUSION	14
Exhibit A: Audit Objectives, Scope and Methodology	15
Exhibit B: Potentially Under-Assessed Vacant Land Properties Sampled – December 31, 2015	17

EXECUTIVE SUMMARY

2015 Audit Work Plan included an audit of the City's water billing and collection processes

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. During the course of this audit, the Auditor General performed an analysis of properties classified as 'vacant land' with ongoing water consumption to determine the appropriateness of the property classification and its impact on property valuations and property tax revenues.

Auditor General in her earlier report highlighted concerns relating to property valuations and fairness in property taxation

In 2015, the Auditor General in her report entitled "Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)" highlighted concerns relating to property valuations and fairness in property taxation. The results of the analysis of water billing and vacant land properties further complements the findings made during the earlier audit. The 2015 report on property taxes is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-84553.pdf>

Potential property tax revenue leakage related to incorrectly classified vacant land properties

The water billing and collection processes audit is still underway. The Auditor General is reporting at this time on one portion of the audit because of the possibility of potential property tax revenue leakage related to incorrectly classified vacant land properties.

Our first report on water collections, entitled "Audit of Water Billing and Collection – Phase I: Overdue Water Account Collections Require Strengthening" was tabled at the March 31, 2016 Council meeting and is available at:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-90687.pdf>

Phase II review consists of 3 areas

Phase II of our review consists of three areas: review of water consumption at properties classified as vacant land (Part 1), management of the York Region water supply contract (Part 2) and water billing processes (Part 3).

The focus of Phase II, Part 1, is potential property tax revenue leakage related to incorrectly classified vacant land properties. Based on ongoing water consumption, these properties appear occupied.

The relationship between water billing and vacant land properties prompted to review a number of vacant land properties in detail

The relationship between water billing and properties classified as vacant land prompted us to review a number of vacant land properties in detail. This Part 1 of Phase II report, identifies instances where ongoing water consumption has indicated properties showing as ‘vacant land’ in the Municipal Property Assessment Corporation (MPAC) and the City’s Property Tax Billing System that do not appear to be vacant.

The final phase (Part 3) of the water billing and collections audit will be reported at the March 2017 Audit Committee.

We reviewed open building permits that were issued over three years ago and noted that 280 properties were classified as vacant land. The results of our analysis of a sample of properties indicate findings in three areas:

Overall Findings

A. The City is incurring potential property tax revenue losses due to incorrectly classified properties

Properties are classified as ‘vacant’ for an extensive period of time. In some cases:

- i) building permits have remained open for a long period of time, in certain instances exceeding 10 years; or
- ii) a lack of timely update of property classification to ‘occupied status’ even though the building permits have been closed and construction is complete.

Vacant land properties have lower assessed values when compared to occupied properties

Vacant land properties have lower assessed values when compared to properties that are developed and occupied. Our auditors collected significant evidence that properties are actually completed and occupied even though they are classified as vacant land. The *Ontario Assessment Act* permits MPAC to assess properties for the current year and two years prior in those cases where the improvement is not reflected on the annual assessment roll. To the extent that some of these properties remain vacant land beyond the three years, property tax revenues are understated.

City may have incurred revenue loss of approximately \$250,000 on properties sampled for review

Though difficult to determine, from a sample of 38 properties we reviewed as of December 31, 2015, we estimate the City potentially incurred accumulated property tax revenue loss of approximately \$250,000 due to incorrectly classified vacant land properties. In 2016, certain property classifications were corrected, however, the potential for ongoing property tax revenue loss would be approximately \$100,000 annually if the remaining property classifications are not corrected on a timely basis.

The above estimated amounts relate to the sampled properties only, the City-wide impact for all incorrectly classified properties would be much larger.

B. No show inspections (i.e. property owner unavailable) are costing the City money

Opportunity exist to recover 'no show inspection' costs

Properties are inspected through the Building Division. There were 11,500 inspection visits over the past three years, where inspectors showed-up at properties for a scheduled mandatory inspection visit only to find that the property owner was not at home.

In addition, there are 1,500-2,000 'no-show' visits during a year for non-mandatory inspections that are initiated due to neighbour complaints.

Factoring in the time of each call, these 'no shows' create inefficiencies and cost the City approximately \$500,000 to \$750,000 annually.

C. Improvements required in reporting and communication between City Divisions and MPAC

Improved coordination and reporting between City Divisions and MPAC is required

Toronto Building and Revenue Services Divisions need to coordinate and take an enterprise-wide approach and understanding of the various elements as they relate to the building permit process, property classification and assessment, and billing of property taxes.

Improved coordination and reporting between City Divisions and MPAC is also required to address building permit and property classification issues on a timely basis.

BACKGROUND

The Auditor General has in the past conducted a review into the operations and management of the building permit process. The report entitled “Toronto Building - Improving the Quality of Building Inspections” is available at:

<http://www.toronto.ca/legdocs/mmis/2014/au/bgrd/backgroundfile-67006.pdf>

We considered the recommendations made in our earlier report, and have made additional recommendations where required involving building permits in this report.

Building Permits Process

Building Code Act, 1992 sets out mandatory inspections required during the specific stages of construction

The *Building Code Act, 1992* requires that a building permit be obtained before any proposed building construction or demolition can begin. The *Building Code Act, 1992* sets out mandatory inspections required of municipalities during the nine specific stages of construction.

Toronto Building is responsible for ensuring mandated inspections are conducted for issued permits. The building permits are closed once all stages of inspection are passed, including the final inspection. A permit is not closed until all deficiencies are addressed and the final inspection is completed.

Permit holders are responsible for notifying Chief Building Official once construction is ready for inspection

The legislation requires permit holders notify the Chief Building Official once construction is ready for inspection at prescribed stages of construction. City building inspectors are obliged to conduct these mandatory inspections, within the prescribed time.

The *Building Code Act, 1992* allows the Chief Building Official to revoke a building permit if:

- After six months after its issuance, the construction or demolition in respect of which it was issued has not, in the opinion of the Chief Building Official, been "seriously commenced";
- The construction or demolition of the building is, in the opinion of the Chief Building Official, "substantially suspended or discontinued for a period of more than one year".

Role of Municipal Property Assessment Corporation

MPAC is a legislated body responsible for assessing properties in Ontario

Municipal Property Assessment Corporation (MPAC) is a legislated body responsible for assessing properties in Ontario. MPAC classifies a property as 'vacant land' if the property is an unoccupied parcel of land, or where a new building is being constructed or a major renovation is being undertaken at the property. Toronto Building provides MPAC a list of building permits issued during the month for its review and action.

When a 'vacant land' status is assigned to a property, the property's assessment value, for municipal tax purposes, is often reduced and/or the increment in the assessment value may be relatively lower when compared with other occupied properties in the neighbourhood. The properties are re-assessed when construction is complete and the 'vacant land' status has been changed to 'occupied'.

AUDIT RESULTS

Our audit objectives, scope and methodology for this review is outlined in Exhibit A.

280 building permits had properties classified as vacant land as at December 2015

We analysed building permit data as at December 2015 and noted that 280 building permits had associated properties classified as vacant land. Of these 129 were open permits and 151 were closed permits that were issued prior to December 2012. The year 2012 was selected as a conservative cut-off to sample permits that were at least 3 years or older.

We sampled 38 properties to analyze in detail the current building permit status at the City, property status updates by MPAC and potential impact on property valuations and taxes. We identified the following findings.

A. POTENTIAL PROPERTY TAX REVENUE LOSSES DUE TO INCORRECT CLASSIFICATION OF PROPERTIES

A property may be classified as vacant land by MPAC when the building permit indicates that there will be major construction. Property values are reassessed when construction is complete and the permit has been closed. Generally the property classification changes from vacant land to an occupied property.

While the property is in the vacant land status, it continues to have lower assessed value when compared to a property that is developed and occupied. If the permit status and property classification is not updated on a timely basis it results in an incorrect assessment of the property's value and a potential loss of property tax revenue to the City.

Review of sample properties indicates that the City is losing property tax revenue

Though difficult to determine, from a sample of 38 properties we reviewed as of December 31, 2015, we estimate the City potentially incurred accumulated property tax revenue loss of approximately \$250,000 due to incorrectly classified vacant land properties.

In 2016, certain property classifications were corrected, however, the potential for ongoing property tax revenue loss would be approximately \$100,000 annually if the remaining property classifications are not corrected on a timely basis. These estimated amounts relate to the sampled properties only, the City-wide impact for all incorrectly classified properties would be much larger.

The following sections discuss how current processes can be improved to ensure timely updates are made and property tax classifications are correct.

A.1. Lack of Adequate Monitoring and Timely Update of Open Building Permits Results in Undervalued Property Assessments

Lack of adequate monitoring of open building permits results in certain permits remaining open for an extended period of time resulting in properties continuing to be incorrectly coded as vacant land.

129 building permits were over 3 years old with properties classified as vacant land

As of December 31, 2015, there were approximately 1,100 open building permits with their related properties classified as vacant land. Our review indicates 129 building permits were over three years old. Some of these properties were reviewed using Google Street View, and their ongoing water consumption. A number of these properties appeared complete and certain properties had water consumption above construction levels indicating occupation of these properties, but they were still classified as vacant land.

Inadequate Building Inspection Process Controls

The inspection process is dependent on a request from the property owner

The Toronto Building inspection process is dependent on a request from the property owner to inspect after each of the stages of construction. If the owner does not call, the inspection does not happen, the building permit remains open and the property continues to be classified as vacant land. The construction for a new building involves nine stages of inspection from start to finish. The City has neither follow-up criteria nor a process to proactively monitor permits that are open for extended periods of time.

Reaffirming the Need to Effectively Manage Open Building Permits

The Auditor General issued a report in January 2014 highlighting the following among other issues:

- No inspection of 98,000 permits for over a year in 2012
- No inspection of 70 per cent of open violations
- Need to strengthen Inspection Activity Monitoring Information

Management needs to expedite its actions to clear the building permit backlog

Management advised that after the Auditor General's 2014 report, Toronto Building has formed a group of staff to review and clear the dormant permits. We recognize management's efforts to address the backlog, however, at the time of our last follow up process the majority of the audit recommendations were still outstanding.

Management needs to expedite its actions as four years of additional building permit activity has been added to the backlog since our last audit.

25,000 building permits that were issued over 5 years ago, still remain open as of December 31, 2015

During this review we noted approximately 25,000 building permits that were issued over five years ago, still remain open as of December 31, 2015. We also noted 415 permits which were coded as 'work not started' and were over 12 months old.

These long standing open permits need to be reviewed to assess any risk for undervalued tax assessments. Toronto Building and Revenue Services should coordinate to develop specific exception reports to review open permits that have an ongoing vacant land status classification. In accordance with the *Building Code Act, 1992*, processes should be implemented to effectively address building permits that are open for extended periods of time.

Recommendation:

- 1. City Council request the Chief Building Official and Executive Director to develop an action plan to resolve dormant permits. The Action Plan should include:**
 - a. A communication strategy to educate property owners about their responsibilities and obligations to inform the City about the progress of their construction project.**
 - b. A strategy to prioritize the review of permits that have been open for an extended period of time and are classified as vacant land.**

A.2. Lack of Adequate Monitoring and Timely Update of Closed Building Permits Results in Undervalued Property Assessments

Building permits closed three or more years ago but the properties still classified as vacant land

Our analysis identified over 150 building permits that were closed three or more years ago but the properties were still classified as vacant land.

We reviewed water consumption at several of these properties and also viewed the property year over year through Google Street View. It appears that several properties have been occupied for multiple years, even though they are still classified as vacant lands. Some examples are included below.

Per the *Ontario Assessment Act*, the City can claim lost taxes due to under assessed property values via an omissions roll from MPAC for the current year and up to the last two preceding years. However, our review identified properties that had exceeded this time line and therefore resulted in lost property tax revenue.

If timely action is not taken, the City will continue to lose property tax revenue

Similar to properties with open permits, those properties that have closed building permits need to be reviewed to confirm whether the vacant land status is accurate. If timely actions are not taken, the City will continue to lose property tax revenue.

Examples of Potentially Undervalued ‘Vacant Land’ status Properties as at December 31, 2015

Example # 1: Property with closed building permit classified as vacant land for over 15 years

The building permit for this property was issued over 15 years ago and closed in 2005. This property continued to be classified as vacant land for over 15 years. The Google Street View of this property indicates no construction since 2007, the building appears fully complete with ongoing water consumption indicating likely occupancy of the building.

Large multi-story building is significantly undervalued

In our view this large multi-story building is significantly undervalued at current assessment value of \$1.1 million. We noted comparatively smaller residential houses in this neighbourhood valued at approximately one million dollars.

Example # 2: Property assessment value increased by over \$10 million after change in property classification from vacant land to occupied property

Change in the property classification from vacant land status to an occupied property results in increased assessment value

The building permit for another property was issued over five years ago. This property was also classified as vacant land. This property had ongoing water consumption for the past three years indicating potential occupancy of the building.

A change in the property classification from vacant land status to an occupied property commonly results in increased assessment value. If the reclassification is not performed on a timely basis, it potentially results in lost property tax revenue.

The classification of this property (example # 2) was changed in 2016 to an ‘occupied property’. The assessment value of this property was then revised from \$5 million to over \$15 million.

Example # 3: Two neighbouring properties with completed construction sold at three times of their existing assessment values continue to be classified as vacant land

Properties with completed construction appearing as vacant land

Two neighbouring properties were classified as vacant land three years ago. Construction was completed during the same year and the properties were sold during the same year for approximately \$1.2 million each. The sales price was three times of their current assessment value.

These properties are still appearing as vacant land with assessment values of approximately \$400,000 each. In our view, these properties are significantly undervalued.

From the above, it is evident that property classification and valuations for vacant land properties may not reflect the correct valuation and property tax assessment.

Recommendations:

- 2. City Council request the Director, Revenue Services and the Chief Building Official develop exception reports to monitor the classification status of vacant land properties, such as:**
 - a. Reports identifying properties with completed construction still coded as vacant land.**
 - b. Reports of properties with open permits coded as vacant land and consuming water.**
- 3. City Council request the Director, Revenue Services review the reported vacant land properties to identify such properties to the Municipal Property Assessment Corporation (MPAC) to ensure that appropriate property taxes may be billed and recovered.**

B. NO SHOW INSPECTIONS (I.E. PROPERTY OWNER UNAVAILABLE) ARE A WASTE OF VALUABLE CITY RESOURCES

11,500 inspections could not be performed due to a lack of access to the property

Approximately 3,500 'no show inspection' visits occur every year where property owners request inspections but are not available when the building inspector visits the property. For the period from 2013 to 2015, there were 11,500 instances where building inspectors visited a property and could not perform the inspection due to a lack of access to the property and in certain instances because of health and safety hazards. These are mandatory visits required for closing of building permits and are prescheduled with the property owners. Management advised that it is the responsibility of the property owner to be available as scheduled and ensure that the property is accessible.

No action by the City to deter 'no show inspections'

No show inspections waste a City inspector's valuable time to schedule the appointment and to go to the location. The City does not charge any additional fee for no-show visits and subsequent inspections are performed as requested by the property owner, subject to their availability. The City does not charge a fee to deter property owners from a 'no show' occurrence despite the waste of City resources. In addition, these 'no show' inspections delay the closing of permits and the correct coding of vacant land properties.

Our review also identified that the City performs inspection visits based on complaints received from neighbours for various reasons. These visits are categorized as non-mandatory visits. We noted that approximately 1,500 to 2,000 inspections were 'no shows'.

We estimate that no show inspection activity wastes \$500,000 - \$750,000 annually of building inspector's time

Management advised that the approximate cost incurred by the City for a no show inspection visit could be in the range of \$100-\$150. A conservative estimate for no show visit is \$500,000 to \$750,000 annually. These resources could be used more efficiently addressing the service gaps identified in this current report and in our earlier report entitled "Toronto Building - Improving the Quality of Building Inspections" issued in 2014.

Recommendation:

- 4. City Council request the Chief Building Official and Executive Director to implement measures that will deter the occurrence of no show inspection visits. The measure should include an assessment of whether a fee can be charged to property owners for ‘no show’ inspection visits where these visits are pre-scheduled.**

C. IMPROVEMENTS REQUIRED IN REPORTING AND COMMUNICATION BETWEEN CITY DIVISIONS AND MPAC

Coordination of efforts needed

The results in this audit indicate that Toronto Building and Revenue Services Divisions need to coordinate their efforts and develop appropriate processes and controls to ensure that vacant land properties are properly classified, assessed and billed for property taxes.

Improved reporting needs to be provided to MPAC by the Toronto Building and Revenue Services Divisions

Improved reporting needs to be provided to MPAC by the Toronto Building and Revenue Services Divisions. Monthly reports, for example, do not include permits that were opened in prior periods but closed in the current reporting month. Reporting the permit status to MPAC is important for the timely update of the property classification.

Our discussion with MPAC staff indicates that providing the stage of completion of the construction to MPAC would also help MPAC to plan inspections and perform property assessments on a timely basis.

Recommendation:

- 5. City Council request the Director, Revenue Services in consultation with the Chief Building Official and Executive Director coordinate with Municipal Property Assessment Corporation (MPAC) to identify data sources and reports that may improve on the appropriate and timely update of property classification and assessment by MPAC.**

CONCLUSION

Implementation of recommendations will improve controls and operational efficiency

This report identifies a number of opportunities to enhance the administration of building permits, inspections and review of vacant land property assessments.

We estimate that the City could better utilize its resources by improving controls to address the unnecessary costs incurred in the range of \$500,000 - \$750,000 per year on 'no-show' inspections.

Improvements in reporting and monitoring of property classification will result in collecting additional property tax revenue that the City may have been potentially losing.

We would like to express our thanks for the co-operation we received from staff of the Revenue Services, Toronto Water and Toronto Building Divisions during this audit.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

***Auditor General
2015 Audit Work
Plan***

In accordance with the 2015 Audit Work Plan, the Auditor General's Office initiated an audit of the City's water billing and collection processes.

***Audit Objective
and Scope***

This audit is part of the overall review of water billing and collections. Our analytical procedures involved review of ongoing water consumption of properties classified as vacant land. The results of our analysis prompted us to perform a more detailed analysis to determine the appropriateness of the property classification and its impact on property tax revenue. The specific objectives include:

- Identify improvements to detect properties incorrectly classified as vacant land and improve inter-divisional reporting and coordination; and
- Identify opportunities to improve the data exchange and communication between Toronto Building, Revenue Services and MPAC to ensure timely updates to property classification

***Audit
Methodology***

Our audit methodology included the following:

- Review of properties classified as vacant land with associated open or closed permits
- Review of water consumption data for vacant land properties
- Review of current value assessments for properties designated as vacant land, including the valuation of certain neighbouring properties
- Review of previous audit reports and recommendations
- Review of applicable legislation including the *Ontario Assessment Act*, *The Building Code Act, 1992* and the Toronto Municipal Code
- Interviews with key staff at MPAC, Toronto Building, Revenue Services and Toronto Water

***Compliance with
generally accepted
government
auditing standards***

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Exhibit B

Potentially Under-Assessed Vacant Land Properties Sampled - December 31, 2015 (these are select examples only)

Property #	Assessed Value 2016*	Permit Issue Date	Permit Closed Date	Water Consumption Start Date	Date Sold (where Applicable)	Sales Value (where Applicable)*	MPAC Information	Comments
#1	\$420,000	Oct, 2011	Apr, 2012	Jan 2014	2013	\$1,200,000	Coded vacant in 2012	<ul style="list-style-type: none"> • New House, sold for 3 times CVA value • Permits closed over 4 years ago. Still coded vacant in 2016 • Under assessed property
#2	\$725,000	Sep, 1996	OPEN	Consumption Never Stopped	N/A	N/A	Coded vacant prior to 2009	<ul style="list-style-type: none"> • Property has been coded vacant for more than 15 years • No building permit updates over 7 years • Per Google Street View (Google) house completed more than 9 years ago
#3	\$5,500,000	Oct, 2010	OPEN	June 2013	2007	\$5,000,000	Coded vacant in 2011	<ul style="list-style-type: none"> • Property assessment value revised in 2016 during the course of audit to over \$15 million
#4	\$770,000	Jul, 2008	OPEN	No Consumption	2007	\$700,000	Coded vacant prior to 2009	<ul style="list-style-type: none"> • Per Google, majority of construction completed in 2011 and fully completed in May 2012 • No building permit updates for more than 6 years
#5	\$590,000	Feb, 1999	OPEN	Consumption Never Stopped	1995	\$220,000	Coded vacant prior to 2009	<ul style="list-style-type: none"> • Property has been coded vacant for more than 7 years • No building permit updates for more than 15 years • Property completed more than 10 years ago
#6	\$1,200,000	Apr, 2000	Jun, 2005	Consumption Never Stopped	2000	\$770,000	Coded vacant prior to 2009	<ul style="list-style-type: none"> • Coded vacant for more than 15 years • All major building permits closed • Per Google property completed more than 9 years ago

Property #	Assessed Value 2016*	Permit Issue Date	Permit Closed Date	Water Consumption Start Date	Date Sold (where Applicable)	Sales Value (where Applicable)*	MPAC Information	Comments
#7	\$360,000	Oct, 2010	OPEN	June 2012	N/A	N/A	Coded vacant in 2013	<ul style="list-style-type: none"> Property has been coded vacant for more than 3 years Per Google property completed more than 4 years ago No building permit updates for more than 5 years
#8	\$360,000	Oct, 2010	OPEN	Oct 2012	N/A	N/A	Coded vacant in 2013	<ul style="list-style-type: none"> Property has been coded vacant for more than 3 years Per Google property completed more than 4 years ago No building permit updates for more than 5 years
#9	\$370,000	Oct, 2010	OPEN	June 2012	N/A	N/A	Coded vacant in 2013	<ul style="list-style-type: none"> Property has been coded vacant for more than 3 years Per Google property completed more than 4 years ago No building permit updates for more than 5 years
#10	\$600,000	Jul, 2010	Aug, 2012	Oct 2013	2005	\$360,000	Coded vacant in 2010	<ul style="list-style-type: none"> House completed more than 5 years ago Building permits closed more than 4 years ago

* Exact assessed and sales values modified slightly to protect resident's identity

**Management's Response to the Auditor General's Audit of Water Billing and Collection – Phase II:
Part 1 - Incorrect Vacant Land Status Properties Reduces City's Property Tax Revenue**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
1.	<p>City Council request the Chief Building Official and Executive Director to develop an action plan to resolve dormant permits. The Action Plan should include:</p> <p>a. A communication strategy to educate property owners about their responsibilities and obligations to inform the City about the progress of their construction project.</p>	X		<p>Agree.</p> <p>As part of the Auditor General's previous recommendations, (January 15, 2014 report <i>Toronto Building - Improving the Quality of Building Inspections</i>) Toronto Building has now established a special enforcement unit to address open permits. The Division launched Phase 1 of the Open Permit Pilot Program in 2015, targeting approximately 650 homeowners. The unit successfully closed 65 per cent of those permits and will be launching Phase 2 of the pilot in Q4-2016 (targeting 650 homeowners again). Over the last year, the unit also closed 1,572 permits that were opened in error.</p> <p>New guides for property owners is in production and are about to be published. The publications will provide guidance on the inspection processes as work progresses through various stages of construction. An additional inspection has also been established where Toronto Building will attend a new infill project with the applicant to review inspection notifications required and good neighbour policies.</p>	<p>The Chief Building Official and Executive Director will include in the work currently in progress with respect to dormant permits, a strategy to prioritize the review of open permits that are classified as vacant land. The work already undertaken by the Division for a communication strategy will be completed to educate property owners on their responsibilities and obligations regarding the construction processes.</p> <p>Expected implementation by Q3, 2017.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
	<p>b. A strategy to prioritize the review of permits that have been open for an extended period of time and are classified as vacant land.</p>		X	<p>Recommendation 1. b. (disagree) With respect to prioritizing the review of open permits that are classified as vacant land, Toronto Building Division does not have the responsibility of determining how MPAC classifies properties and the Division does not have any legislated responsibility to keep or reconcile records concerning these properties. Toronto Building already provides detailed building permit information to MPAC to allow for the assessment of properties. It is the role and responsibility of the Municipal Property Assessment Corporation to accurately assess and classify all land in Toronto, and the Province of Ontario. That obligation remains regardless of the status of any building permits that may be outstanding in relation to land. It is unclear how a strategy could be developed to prioritize the matters set out in the recommendation while still being rationally connected to the objectives and requirements of the <i>Building Code Act, 1992</i> and the <i>Ontario Building Code</i>.</p>	
2.	<p>City Council request the Director, Revenue Services and the Chief Building Official develop exception reports to monitor the classification status of vacant land properties, such as:</p> <p>a. Reports identifying properties with completed construction still coded as vacant land.</p> <p>b. Reports of properties with open permits coded as vacant land and consuming water.</p>	X		Agree	<p>Director, Revenue Services, in consultation with the Chief Building Official, will develop exception reports to monitor the classification status of vacant land properties by Q2-2017, and run/review such reports semi-annually. Expected implementation by Q2, 2017.</p>

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: (Comments are required only for recommendations where there is disagreement.)	Action Plan/Time Frame
3.	City Council request the Director, Revenue Services review the reported vacant land properties to identify such properties to the Municipal Property Assessment Corporation (MPAC) to ensure that appropriate property taxes may be billed and recovered.	X		Agree	Director, Revenue Services, will run/review such reports semi-annually (end of Q2 and Q4 each year), and report any properties that appear to be misclassified to MPAC semi-annually following this review. Expected implementation by Q2, 2017.
4.	City Council request the Chief Building Official and Executive Director to implement measures that will deter the occurrence of no show inspection visits. The measure should include an assessment of whether a fee can be charged to property owners for 'no show' inspection visits where these visits are pre-scheduled.	X		Agree	The Chief Building Official and Executive Director will undertake a review of what potential measures can be undertaken to reduce the occurrence of "no show" inspection visits and will assess whether a fee should be charged in these cases. Expected implementation by the end of Q2, 2017.
5.	City Council request the Director, Revenue Services in consultation with the Chief Building Official and Executive Director coordinate with Municipal Property Assessment Corporation (MPAC) to identify data sources and reports that may improve on the appropriate and timely update of property classification and assessment by MPAC.	X		Agree	Director, Revenue Services, in consultation with the Chief Building Official, will coordinate with Municipal Property Assessment Corporation (MPAC) to identify data sources and reports that may assist MPAC to improve on the appropriate and timely updates of property classifications. Expected implementation by Q2, 2017.