



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)

Date:	October 3, 2015
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The Auditor General's 2014 Audit Work Plan included an audit of Property Tax Billing and Collection processes. The overall objective of this review was to assess the efficiency and effectiveness of processes in place to bill and collect property taxes. The review of collections was limited to the collection of Payment in Lieu of Taxes (PILTs) for government properties.

Property tax assessments are based on property assessment values provided by the Municipal Property Assessment Corporation (MPAC). MPAC is legislatively authorized to assess properties in Ontario. As the single largest municipality, the City of Toronto pays approximately \$40 million annually to MPAC for services provided.

Our review did not include an assessment of the quality of services provided by MPAC. However, based on our review of property tax assessments and the related appeal process, City efforts to coordinate with MPAC should be strengthened. As well, review and follow-up on services provided by MPAC could be improved.

In 2010, the Ontario Auditor General's review of MPAC operations raised similar concerns regarding valuation of properties, and more recently the Province of Ontario has raised similar concerns. The Ontario Auditor General's report and Globe and Mail article on MPAC valuations of certain government properties are available at:

http://www.auditor.on.ca/en/reports_en/en10/308en10.pdf

<http://www.theglobeandmail.com/news/national/ontario-aims-to-cash-in-on-toronto-property-assessment-rebates/article26556045/>.

The report contains 15 recommendations. The implementation of recommendations contained in this report will improve controls over the administration and review of property assessment data, evaluation and appeal of property assessments, and property tax billing and collection of outstanding payments.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director Revenue Services develop a process and criteria to review and identify significantly under-valued Payment in Lieu of Tax properties and initiate applications for review when warranted.
2. City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax amounts paid by the government agencies are significantly less than requested amounts, and take steps to invoke the review process when warranted.
3. City Council request the Director Revenue Services report annually to Council on Payments in Lieu of Tax amounts which remain unpaid. Reported information should include agency name, assessment values, number of years outstanding and amounts received, and action taken to address Payment in Lieu of Tax disputes.
4. City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax payments may be deemed unreasonably delayed and request supplementary payments where warranted.
5. City Council request the Director Revenue Services automate the process for identifying, analyzing and managing the assessment review process. At a minimum, automation should include identification of potential properties for appeal:
 - a. Based on Sales and Current Value Assessment comparisons
 - b. Low Current Value Assessment compared to previous year.

Consideration should be given to potential benefits of leveraging a case management system such as Integrated Business Management System to track properties under review.

6. City Council request the Director Revenue Services review all properties identified during the audit for potential appeal.
7. City Council request the Director Revenue Services to coordinate with Municipal Property Assessment Corporation on the potential for electronically sharing data, including the status of Municipal Property Assessment Corporation inspections and related assessments on closed building permits between the City and Municipal Property Assessment Corporation.

8. City Council request the Director Revenue Services to evaluate the potential for reviewing similar non-residential properties in close proximity to recently sold properties which have been appealed by the City.
9. City Council request the Director Revenue Services to develop a process to periodically review tax exempt properties to determine the appropriate tax status of such properties.
10. City Council request the Director Revenue Services to follow-up with Municipal Property Assessment Corporation on the status of the properties identified during the audit. Those properties deemed taxable should be corrected and billed accordingly.
11. City Council request the Director Revenue Services to evaluate the feasibility of reviewing high value under-assessed residential properties and request Municipal Property Assessment Corporation to review and update for the next roll return when appropriate.
12. City Council request the Director Revenue Services develop additional review criteria and a process to ensure Municipal Property Assessment Corporation provided data is adequately reviewed and validated. At a minimum, the process should include:
 - a. Review of declining assessment values beyond a certain percentage when compared to the previous year.
 - b. Developing exception reports to review and reconcile missing roll numbers or roll number changes from one year to the next.
 - c. Develop a reporting process with Municipal Property Assessment Corporation where data provided by Municipal Property Assessment Corporation include the rationale for changes to property assessment values and property class.
13. City Council request the Director Revenue Services to coordinate with Canada Post to evaluate efforts to increase the number of ePost subscribers. Alternatively, the feasibility of introducing other methods of electronic bill delivery should be evaluated.
14. City Council request the Director Revenue Services develop and implement a formal access control and review process. A review of user access should occur periodically and unauthorized users removed from authorized user lists.
15. City Council request the Director Revenue Services to investigate the feasibility of eliminating the use of generic user ID's and passwords. Each user should be provided a unique user ID and password.

Financial Impact

The implementation of report recommendations has the potential to increase additional revenue through improved controls over the administration and review of property assessment data, evaluation and appeal of property assessments, property tax billing and collection of outstanding payments. The extent of additional revenue is not determinable at this time.

ISSUE BACKGROUND

Property tax revenue is a significant source of City funding. The 2014 total assessed value of almost 740,000 properties amounted to approximately \$525 billion. Total 2014 property taxes, education levy, and payment in lieu of taxes billed amounted to approximately \$5.8 billion.

For commercial and residential properties, property taxes and interest payments on overdue amounts result in a lien on the property title. Outstanding property taxes remain attached to the property in the event the property is sold.

For government owned properties, legislation prohibits one level of government from taxing another level of government. Instead, governmental organizations submit payments in lieu of taxes.

COMMENTS

This report identifies a number of opportunities to improve the management of property tax assessment review, appeal and billing processes and also highlights the need for the City to have better coordination and automated processes with MPAC.

The audit report is attached as Appendix 1. Management's response to recommendations contained in the audit report is attached as Appendix 2.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

- Appendix 1: Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)
- Appendix 2: Management’s Response to recommendations in the Auditor General’s Report entitled “Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)”

AUDITOR GENERAL'S REPORT

**Improving Controls Over Property
Tax Assessments and Payment in Lieu
of Taxes (PILTs)**

July 2015

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



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EXECUTIVE SUMMARY

The Auditor General's 2014 Audit Work Plan included an audit of Property Tax Billing and Collection processes. The Revenue Services Division is responsible for billing and collection of property taxes.

Purpose and scope of the audit

The purpose of the audit was to determine the adequacy of controls related to:

1. Review of property assessments
2. Billing of property taxes; and
3. Billing and collection of Payment in Lieu of Taxes (PILTs) for government properties.

Toronto has largest municipal tax base in Canada

The City of Toronto has the largest municipal property tax assessment base in Canada. The 2014 total assessed value of almost 740,000 properties with a total value of approximately \$525 billion. Total 2014 property taxes, education levy, and payment in lieu of taxes billed amounted to \$5.8 billion.

Key Observations

This report identifies areas where controls are operating effectively and areas where improvements are needed.

Effective controls were in place for the property tax billing processes. For example, after property assessments are updated in the tax billing system, staff perform a number of reconciliations to ensure the accuracy of tax calculations.

In addition, based on our sample review we confirmed that City Council approved property tax rates were correctly entered into the system and tax calculations based on assessment values were performed correctly.

Improvements should be made in the review of property assessments, the collection of Payments in lieu of Taxes and validation of MPAC data.

Details are outlined in the Audit Results section of this report.

Summary of Issues

Government Owned Properties – Payment in Lieu of Taxes (PILTS)

Review of property tax assessments for government owned properties requires strengthening

The review of property tax assessments for government owned properties requires strengthening. Existing property assessments may not reflect current market value.

In the sample we selected, we noted two instances where properties were potentially under-assessed by up to \$7.5 million. The assessment values for both these cases were under 20 per cent of sales price.

We recognize that assessment values may not exactly equal sales amounts or market values however, if these assessment values are reviewed in a timely manner and disputed successfully, a reasonable assessment would increase revenue and improve equity among taxpayers. For the example cited, the properties had been properly valued in prior years, additional payment in lieu of taxes in the range of \$100,000 to \$150,000 per year could have been realized.

More rigorous follow-up on PILTs required

More rigorous follow-up is required for the review and collection of Payment in Lieu of Taxes (PILT) from government owned properties. Almost \$80 million was outstanding as of April 30, 2015. Management advised that of this total, \$54 million or 68% of outstanding PILT payments is attributable to two federal agencies. Multi-year settlements for these outstanding PILTs are pending and close to resolution.

Amounts shown in this report are as of the completion date of audit fieldwork in July 2015. Ongoing revisions and settlements to outstanding PILT amounts have occurred since July 2015.

Management has submitted a report on Payment in Lieu of Taxes for Ports Toronto and an additional report to the Government Management Committee in recent months. The reports are available at:

- i) www.toronto.ca/legdocs/mmis/2015/gm/bgrd/backgroundfile-81028.pdf
- ii) www://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM7.1

The City does not pursue supplemental payments (amounts similar to interest charges) for delayed payments from government agencies on outstanding payment in lieu of taxes. Our review indicates that the federal minister may make a supplemental payment for a PILT where payment has been unreasonably delayed.

Commercial, Industrial and Multi-Residential Properties

Issues related to Commercial, Industrial and Multi-residential properties

Our review of properties sampled indicates that revenue in the range of \$400,000 could have been billed through a timely and comprehensive review of assessments. We noted the following issues:

- Process for analyzing property assessments and managing appeals requires automation. Potential for omission of properties from appeal list exists.
- Process is required to communicate and appeal omitted renovation costs and completed building permits in relation to property assessments.
- Review of neighboring properties at the time of appealing under-assessed properties and updating MPAC would result in fair valuation and potential additional revenue.
- Process is required to periodically review exempt properties and ensure property classifications are updated when revised.

Residential Properties Over \$5 million

Where assessment values of high value residential properties are considerably lower than sales value, MPAC should be notified for consideration in the next tax cycle.

If the properties are not revalued by MPAC, the City should consider appealing the properties.

Our analysis of high value residential properties sold over \$5 million indicates that with timely review and notification to MPAC, additional revenue could be realized.

Property Tax Billing and Administration

Issues related to billing and administration of Property Tax

- Review and analysis of MPAC data requires strengthening. Independent validation is needed to assure data completeness.
- Property tax bill mailing costs can be reduced by expanding ePost or introducing electronic options. While reviewing property tax billing we also reviewed mailing costs of other utility bills and we estimate potential savings of approximately \$650,000 are available.

Controls over computer access

Other issues

Information technology access controls require strengthening.

Overall opportunities for improvement

Our review has identified several opportunities for improvement and includes 15 recommendations. These opportunities and recommendations are discussed below.

Management advised that work on implementing certain recommendations has already been initiated such as developing building permit status reports and IT access controls.

Property tax revenue comprises 39 per cent of 2014 City operating revenue

Background

Property tax revenue is a significant source of City funding comprising approximately 35 per cent of City operating revenue in 2014.

The property tax system depends on a uniform assessment system that is fair, transparent and accountable.

The tax rate is based on the amount the City requires for service delivery and to build and maintain infrastructure. Under-assessed properties and the under-collection of payment in lieu of taxes due from governmental agencies results in less equitable distribution of collectible taxes and certain taxpayers shouldering more than a fair share of the tax burden.

Some properties are exempt from property tax

Some properties such as conservation land, places of worship, and community centres are exempt from property taxes.

For commercial and residential properties, property taxes and interest payments on overdue amounts result in a lien on the property title. Outstanding property taxes remain attached to the property in the event the property is sold.

For government owned properties, legislation prohibits one level of government from taxing another level of government. Instead, governmental organizations submit Payments in Lieu of Taxes known as PILTs.

Legislation provides for government organizations to determine Payments in Lieu of Taxes (PILTs)

Legislation provides for government organizations paying PILTs to determine the amount to be paid. We noted instances where payments made in lieu of taxes are significantly less than amounts requested. Further, it is at the payee government's discretion to determine whether a supplemental amount may be paid where a payment has been unreasonably delayed.

Role of Municipal Property Assessment Corporation (MPAC)

MPAC re-assesses all properties every 4 years

Municipal Property Assessment Corporation (MPAC) is a legislated body responsible for assessing properties in Ontario. MPAC re-assesses individual properties every four years based on the property's Current Value Assessment (CVA). Taxes and payments in lieu of taxes are paid based on property values assessed by MPAC.

MPAC invoices each municipality for its services, based on a legislated formula. The formula is based on the number of properties in the municipality and their assessed value as a percentage of the total number of properties in Ontario and the total combined assessed value.

City pays \$40 million annually for services provided by MPAC

As the single largest municipality, the City of Toronto pays approximately \$40 million annually to MPAC for services provided.

Property owners and municipalities have avenues available for appealing property assessments

MPAC provides assessed values to municipalities for tax purposes. Both property owners and municipalities have avenues available for appealing property assessments.

When assessments are successfully appealed by municipalities, property taxes are revised to reflect the revised assessment.

Similarly, property owners can appeal overvalued assessments in relation to other similarly situated properties.

Between assessments, if the property was undervalued because of a physical change to the property, MPAC can issue supplementary assessments.

The City provides MPAC a property file consisting of building permits from its database every month so that ongoing changes to properties are considered.

Audit Results at a Glance

The "Audit Results At a Glance" Table below provides details of what we expected to find and the results of our review.

AUDIT RESULTS AT A GLANCE			
WHAT WE EXPECTED TO FIND	Adequate Controls	Some Improvement Needed	Significant Improvement Needed
<p>A) Assessment Review and Appeals by the City</p> <ul style="list-style-type: none"> • Controls exist to review and identify undervalued properties. <ul style="list-style-type: none"> ○ Government Properties (PILTS) ○ Other Properties • Under assessed or incorrectly classified properties are timely appealed <ul style="list-style-type: none"> ○ Government Properties (PILTS) ○ Other Properties • Adequacy of controls in monitoring of ongoing progress are efficient and effective <ul style="list-style-type: none"> ○ Government Properties (PILTS) ○ Other Properties • Adequate processes exist in following-up and collecting payment in lieu of taxes 		<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p>
<p>B) Property Tax Billing and Administration</p> <ul style="list-style-type: none"> • All properties as returned on the assessment roll are included in the property tax calculation • Adequate controls exist in the calculation and billing of property taxes on the data received from MPAC • Adequacy of process for reconciling current property tax assessment roll with the prior year data. • Adequate processes exist to prevent occurrence of fraud and wrongdoing 	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	<p style="text-align: center;">√</p>	
<p>C) Assessment and Update of Property Tax Roll</p> <ul style="list-style-type: none"> • Assessment rolls were complete and independently validated • Adequate processes in place to identify errors and omissions • Property tax assessments were reasonable • All taxable properties from MPAC are updated in the tax management system (TMACS) correctly and on a timely basis 	<p style="text-align: center;">√</p>	<p style="text-align: center;">√</p> <p style="text-align: center;">√</p> <p style="text-align: center;">√</p>	
<p>D) Other Issues</p> <ul style="list-style-type: none"> • Adequacy of information technology access controls 		<p style="text-align: center;">√</p>	

Separate letter to management

Details of our audit observations are included in the Audit Results section of this report. In addition, the Auditor General has issued a separate letter to management detailing other less significant issues that came to our attention during the audit.

These issues are related to automation of certain processes, validation of MPAC payments, development of a Service Level Agreement (SLA) with MPAC and improvement of succession planning related to key management staff.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

***Auditor General
2014 Work Plan***

In accordance with the 2014 Annual Audit Plan, the Auditor General's Office initiated a review of property tax billing and collection processes at the City.

***Audit Objective
and Scope***

The overall objective of this review was to assess the efficiency and effectiveness of processes in place to bill and collect property taxes. The review of collections was limited to the collection of Payment in Lieu of Taxes (PILTs) for government properties.

The scope of the review included an assessment of:

- Adequacy of controls in reviewing property tax assessment rolls provided by MPAC
- Appeal of undervalued and other properties where revisions are required
- Calculation and billing of property taxes and payments in lieu of taxes for government owned properties
- Controls over the collection of payments in lieu of taxes

The audit reviewed property assessment values and taxes for the period between January 2013 and December 2014.

***Audit
Methodology***

Our audit methodology included the following:

- Review policies and procedures related to property assessment data verification and processing in the tax management system
- Review City procedures for appeal and follow-up on MPAC assessments
- Review policies and procedures for implementing Council approved tax rates
- Verify tax amounts included in the final property tax bill

- Analyze property tax data
- Review information technology controls over tax management systems
- Review previous audit reports and recommendations
- Review tax billing and collection processes and follow-up on outstanding amounts
- Interviews with City staff, MPAC staff and officials from other municipalities.

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.

AUDIT RESULTS

Reviewed controls over property tax billing

We reviewed controls in place over property tax revenue billing, data from 2013 and 2014, and documents maintained to follow-up on City initiated property assessment appeals and collection of payment in lieu of taxes.

Details of the number of properties in the City of Toronto and the property taxes billed during 2013 and 2014 are summarized below in Table A.

Table A
Summary of Property Tax
Billing 2013 – 2014

Property Class	2014		2013	
	No. of Property Accounts	Amount	No. of Property Accounts	Amount
Residential	694,720	\$2,516,327,578	681,604	\$2,417,933,876
Commercial	23,949	\$2,196,793,692	23,167	\$2,186,562,823
Mixed Use	12,821	\$511,483,889	12,833	\$523,120,296
Multi-Residential	3,312	\$377,949,483	3,384	\$394,711,856
Industrial	2,810	\$164,279,052	2,847	\$170,636,163
New Multi-Residential	41	\$5,242,744	36	\$3,409,736
Pipeline	21	\$8,041,229	21	\$7,670,080
Farmland	18	\$12,135	17	\$9,890
Managed Forest	0	\$0	0	\$0
Total Property Taxes	737,692	\$5,780,129,802	723,909	\$5,704,054,720
Payments In Lieu of Taxes (PILTS)	722	\$98,780,997	729	\$98,863,475
Total Taxes & PILTs*	738,414	\$5,878,910,799	724,638	\$5,802,918,195

**Source: Revenue Services Division Data, City of Toronto*

Our audit included a sample of taxable and tax-exempt properties. For those properties selected, we reviewed the adequacy of controls in place over property assessments, billing, and where necessary, the appeal process for properties with questionable assessments.

A. PROPERTY ASSESSMENT REVIEW AND APPEALS

A.1. Property Assessment Appeals for Government Owned (PILT) Properties Require Strengthening

Governmental agencies make voluntary payments called PILTs

Federal, provincial and other levels of government may make voluntary payments in lieu of taxes for their respective properties. Amounts requested by the municipality are equivalent to the property's assessed value multiplied by the tax rate. These payments are known as Payment in Lieu of Taxes (PILT).

Combined PILT assessment value is over \$11 billion

There are over 700 PILT accounts for various government properties. The assessment value of these properties varies from under \$100,000 to over \$300 million. The combined assessment value of all PILT properties exceeds \$11 billion. Requests for PILT payments are made to other orders of government based on these assessments.

PILT payments often do not equal amounts requested

Where a government agency disagrees with the assessed value of the PILT property, the agency minister may substitute its own opinion of value to determine the payment amount made in lieu of taxes. As a result, there can be variations in PILT amounts requested versus payments received.

PILT payments made should be based on principle of fairness

The Federal department responsible for properties owned by the Federal Government is Public Works and Government Services Canada, also known as PWGSC. According to PWGSC, payments made under the Payments in Lieu of Taxes Act are based on the principle of fairness respecting both taxing authorities and the federal government. PWGSC takes the position that payments are equitable in comparison to those made by other property owners and should be predictable for all stakeholders.

While we understand the City has pursued and resolved some PILT properties where assessments were in dispute, a more proactive process is needed for review of individual assessments of PILT properties and the collection of PILT monies.

Examples of government under-assessed properties

For example, we noted a PILT property with assessed value of approximately \$720,000. This property was sold in 2013 for \$5.8 million. The amount of payment in lieu of taxes in 2013 and earlier was approximately \$20,000 per year. The assessment value of this property was subsequently revised to approximately \$3.4 million after the sale. Had the property been appropriately valued in prior years while owned by the government agency, the City would have been collecting annual PILT amounts of up to \$97,000 instead of \$20,000.

In another similar instance, we noted that a PILT property valued at \$540,000 was sold for \$3.2 million in 2014. This property is currently under appeal by the City. Similarly, if this property had been properly valued while owned by the Government agency, the City could have collected up to \$94,000 instead of \$16,000 annually.

We did not review and analyze all PILT properties, these examples clearly reflect the fact that there may be a number of PILT properties not appropriately assessed.

Many government owned properties are large, unique and high value

In many cases, government owned properties are large, unique and of high market value. While it is MPAC's responsibility to value properties, it is useful to have a third party expert evaluation of PILT properties where the City is concerned that the assessed value may be below current market value.

Properties with an assessment value lower than current market value result in loss of payment in lieu of taxes. In the examples above, underpayments in the range of \$100,000 to \$150,000 per year may have resulted as the assessment values were significantly lower than the market value.

Active pursuit of disputed PILTs would benefit City

Notwithstanding the efforts the City has taken to date to resolve outstanding PILT disputes on some properties, the City may benefit by more actively pursuing PILT disputes on a greater number of properties where the valuations appear to be low in comparison to surrounding properties.

In cases where a property appears to be undervalued or where a payment less than the requested amount indicates the Federal or Provincial Government or crown corporations do not agree with the assessed value and have decided to make payment based on their own assessment. Such instances should be investigated to determine whether a formal application for review to the Dispute Advisory Panel (DAP) is warranted.

City can request review of PILTs through the Dispute Advisory Panel (DAP)

The City can informally review the matter with MPAC and the government department. In circumstances where potential benefits outweigh costs, the City can choose to request a review before the Dispute Advisory Panel (DAP). The DAP's opinion is not binding and serves only as advice to the minister or crown corporation.

Recommendations:

- 1. City Council request the Director Revenue Services develop a process and criteria to review and identify significantly under-valued Payment in Lieu of Tax properties and initiate applications for review when warranted.**
- 2. City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax amounts paid by the Government are significantly less than requested amounts and take steps to invoke the review process when warranted.**

A.2. Outstanding Payment in Lieu of Taxes and Supplementary Payment on Outstanding Amounts

2014 PILTs requested amounted to over \$110 million

In 2014, total PILTs requested by the City amounted to almost \$100 million. The PILT collection rate varies by property. There are instances where the full requested amount is received. However, there are instances where less than the requested amount is received. In some cases, less than 50 per cent of the requested amount.

The average annual overall collection rate of PILT billed amounts over the last five years ranges from 88 per cent to 97 per cent.

Summary of highlights related to PILT payments

As of December 2014, the total difference between PILT amounts requested and PILT amounts received was approximately \$100 million. According to management approximately \$20 million has been received or adjusted leaving approximately \$80 million outstanding. A summary of highlights related to outstanding PILT amounts as of April 30, 2015 is as follows:

- In some cases, disputed amounts date back to 1998 and beyond.
- \$46 million of the \$80 million relate to requests for payment older than five years.
- Management advised that \$54 million out of \$80 million relates to two federal agencies for which multi-year settlements for outstanding PILTs are being negotiated. A report relating to one of the agencies was presented to City Council in July 2015. Although some individual PILT cases have been reported to City Council most have not been reported to Council since 2007.

Some disputed amounts date back to 1998 and beyond

Amounts shown in this report are as of the completion date of audit fieldwork in July 2015. Ongoing revisions and settlements to outstanding PILT amounts have occurred since July 2015.

Management has submitted a report on Payment in Lieu of Taxes for Ports Toronto and an additional report to the Government Management Committee in recent months. The reports are available at:

- i) www.toronto.ca/legdocs/mmis/2015/gm/bgrd/backgroundfile-81028.pdf
- ii) www://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM7.1

City does not pursue supplementary payments (similar to interest)

- Although, the City does not have authority to apply interest to late PILT payments, it can request supplementary payment when a PILT payment has been unreasonably delayed. The supplementary payment is entirely at the discretion of the Minister.
- The City does not pursue supplemental payments (similar to interest charges) from the government agencies on delayed outstanding payment in lieu of taxes.

Supplementary payments are at the discretion of the minister

In relation to delayed payments, the Payments in Lieu of Taxes Act provides for the following:

- "If the Minister is of the opinion that a payment or partial payment has been unreasonably delayed, the Minister may supplement the payment", and
- "The supplement shall not exceed the product obtained by multiplying the amount not paid by the rate of interest prescribed for the purpose of section 155.1 of the *Financial Administration Act*, calculated over the period that, in the opinion of the Minister, the payment has been delayed."

According to management, given the legislation providing ministerial discretion over PILT payments and supplemental payment on outstanding amounts, the City does not request supplementary payments on delayed payments in lieu of taxes.

Recommendations:

- 3. City Council request the Director Revenue Services report annually to Council on Payments in Lieu of Tax amounts which remain unpaid. Reported information should include agency name, assessment values, number of years outstanding and amounts received, and action taken to address Payment in Lieu of Tax disputes.**
- 4. City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax payments may be deemed unreasonably delayed and request supplementary payments where warranted.**

A.3. Assessment Review Process Requires Improvement

Automating the City Initiated Assessment Review Process Will Improve Assessment Reviews and Tax Revenues

City appeals an average of 200 properties a year

On average, the City appeals 200 properties each year. The process for identifying, analyzing and managing appeals for potentially undervalued properties relies on extensive manual processes which are tedious, cumbersome, time consuming and result in significant risk of error.

This manual process reduces available staff time to review additional properties.

Use of computer technology would make the appeal process more efficient and less error prone

Use of information technology to automate existing processes will reduce the potential for error, facilitate the analysis of more undervalued property reviews and strengthen property valuation case management for property appeals.

Our audit identified properties not considered for review by Revenue Services. Our review of selected sample of properties identified seven properties that could have been potentially appealed for reassessment of their value. The current assessed value of these properties was under 75 per cent of sales price. We have calculated the financial impact by considering potential properties for inclusion on the appeal list. Based on conservative estimates, successful appeals could result in potential revenue up to \$400,000. This amount relates to sampled properties only.

Recommendation:

5. **City Council request the Director Revenue Services automate the process for identifying, analyzing and managing the assessment review process. At a minimum, automation should include identification of potential properties for appeal:**
 - a. **Based on Sales and Current Value Assessment comparisons**
 - b. **Low Current Value Assessment compared to previous year.**

Consideration should be given to potential benefits of leveraging a case management system such as Integrated Business Management System to track properties under review.

Recommendation:

6. **City Council request the Director Revenue Services review all properties identified during the audit for potential appeal.**

Review of Renovated Property Assessment Values Requires Strengthening

Major property renovations can increase assessment value

Major property renovations can result in the potential for increased assessment values. Timely update of assessment values resulting from property renovations and upgrades would provide for fair property valuation and more timely collection of taxation revenues.

Property owners obtain building permits before initiating building improvements. The City Building Division monitors and inspects the renovation process. When renovations are fully inspected and compliance with required standards is achieved the building permit file is closed. Completed building permit information is electronically filed with MPAC for inspection and valuation.

In 2013 City closed 88 building permits over \$3 million each

By way of example, among the building permits processed in 2013, the City Building Division processed and closed 88 building permits over \$3 million each with overall estimated construction costs of \$1.5 billion. This is a significant amount and requires a timely review and update of assessment values.

Building permit data and the results of the MPAC review process are not integrated with the City's tax billing system

After providing information to MPAC, the City relies on MPAC to update property assessments. Building permit data and the results of the MPAC review process are not integrated with the City's tax billing system and do not trigger an automated notification or review of completed permits.

Our review identified certain properties that could have been shortlisted and potentially appealed because major renovations did not appear to be included in assessment values.

Examples of property renovations recently referred to MPAC

As a result of the audit these properties have been referred to MPAC for review and include the following:

- *Property 1: A building permit with estimated value of \$5.4 million completed in 2012 with a 2014 property assessment value of \$3.2 million, indicates the possibility that renovation costs may not be included in the assessment.*
- *Property 2: Building permit completed in 2013. The property sold in 2014 for \$8.7 million and maintains an assessment value of \$600,000 as vacant land. A difference of over \$8 million.*
- *Property 3: Building permit completed in 2013. The property sold in 2014 for \$5 million and maintains an assessment value of \$2 million as vacant land. A difference of \$3 million.*

According to management, renovations and closed permits are eventually picked up through the supplementary and omitted assessment process by MPAC.

More proactive approach to update building permit details into property assessments needed

We have recommended a more integrated and proactive approach to ensure timely update of building permit details in property assessments to enable timely billing and collection of property taxes.

Recommendation:

- 7. City Council request the Director Revenue Services to coordinate with Municipal Property Assessment Corporation on the potential for electronically sharing data, including the status of Municipal Property Assessment Corporation inspections and related assessments on closed building permits between the City and Municipal Property Assessment Corporation.**

Review of Non-Residential Neighbouring Properties to Verify Property Assessments

Revenue Services Division's Assessment Analysis Unit currently focuses their efforts on the recently sold properties where the sale price is significantly higher than the assessed value. Non-residential properties that have not sold but are located in close proximity to a recently sold property are not currently subject to systematic review.

According to management, it is MPAC's job to re-assess all properties every four years. The Revenue Services Division, due to resource constraints and lack of available property data, is not able to perform reviews of all non-residential properties whether sold or not on an ongoing basis.

While we recognize divisional resource constraints, review of neighboring commercial properties when appealing under-assessed properties would result in fair valuation and potential additional revenue, if these properties are identified and communicated to MPAC in a timely manner.

Our review of four neighbouring non-residential properties identified two sold properties successfully appealed on the basis of sales price. The two remaining non-residential properties, although on the same street, were not appealed as they were not sold. These two properties were subsequently sold in 2013 and 2014 and reflected significant undervalued assessments.

Recommendation:

- 8. City Council request the Director Revenue Services to evaluate the potential for reviewing similar non-residential properties in close proximity to recently sold properties which have been appealed by the City.**

Review of Exempt Properties

Owners of exempt properties do not pay property tax

Owners with exempt properties do not pay property taxes. These include properties such as places of worship, charitable organizations, community centres and other special use properties.

Tax exempt properties should be reviewed periodically

Tax exempt properties should be evaluated to determine whether or not the tax exempt classification is still applicable or whether a change in tax classification is appropriate.

The audit team identified 11 properties that required a closer review by MPAC to verify if they still should be in the tax exempt category.

The 11 properties were still under review by MPAC at the time of completion of our fieldwork in July 2015. However, as of the completion of this report, we have been advised by management that the exempt status of 10 properties has been validated by MPAC to be correct and one property is under appeal.

Recommendations:

- 9. City Council request the Director Revenue Services to develop a process to periodically review tax exempt properties to determine the appropriate tax status of such properties.**
- 10. City Council request the Director Revenue Services to follow-up with Municipal Property Assessment Corporation on the status of the properties identified during the audit. Those properties deemed taxable should be corrected and billed accordingly.**

Assessment Review of High Value Residential Properties

City Council approved criteria for appealing undervalued properties

Council has approved the following criteria for determining which property assessments to appeal:

- Properties assessed at a value less than 75 per cent of sales price and could be increased by \$1,000,000
- Revised assessment could increase tax revenue by \$100,000
- Assessed value or classification is incorrect or inequitable in relation to other similar properties or property types

These criteria are only applied to non-residential properties.

Property assessments of high value residential properties should also be considered for review and identification to MPAC.

Noteworthy points related to residential properties that sold for over \$5 million

For example, based on our review of residential properties that sold for over \$5 million during the period January 2013 to May 2015 we noted the following:

- 90 properties sold for over \$5 million each during January 2013 to May 2015 with total sales value of \$832 million.
- 39 of 90 properties had an assessment to sales ratio of under 75 per cent with a total assessment value \$346 million lower than the sale price.

A sample of high value under-assessed residential properties should be flagged for potential appeal

It is understood that assessment values do not necessarily equate with sales prices or in certain cases a property could be assessed at a low assessment value for valid reasons.

The process of reviewing higher value properties, sales over \$5 million, should be evaluated to assist in maintaining a fair and uniform tax system for all taxpayers.

Recommendation:

- 11. City Council request the Director Revenue Services to evaluate the feasibility of reviewing high value under-assessed residential properties and request Municipal Property Assessment Corporation to review and update for the next roll return when appropriate.**

B. PROPERTY TAX BILLING AND ADMINISTRATION

B.1. Review of MPAC Assessment Rolls Requires Improvement

The Revenue Services Division uses the Tax Management and Collection System (TMACS) to manage property tax billing, collection and maintenance of property records. The MPAC property assessment roll is received by the City in December of each year. The tax roll includes property assessment values which are used in the calculation of property taxes for the following year.

City relies on MPAC assessment rolls for property tax billing purposes

The City relies on MPAC to provide specific details on City properties and bills property taxes in accordance with the assessment rolls provided by MPAC.

While adequate controls are in place to update MPAC property assessments in the City's tax billing system, data is not independently validated by the City to ensure data completeness.

There is no assurance that the tax roll included each and every property within the City.

There may be other sources of information maintained by the City Geo-spatial Group or the City building permit database. These data sources can provide a secondary validation of properties included in the tax roll.

Management advised that Revenue Services Division is part of a capital project that will integrate property tax data and other address databases within the City. This should strengthen review process for assuring completeness of the property tax roll.

Other comparative data analysis of property assessment values should be performed

Other Comparative Analysis

Analysis of Decreasing Property Assessments

We noted properties with values decreasing more than 25 per cent when compared to prior year assessments.

For example, in one instance we noted a 60 per cent decrease in the assessment value of a condominium unit. In 2014, the condo unit's assessment value decreased from \$280,000 to \$110,000.

While there may be a reasonable rationale for such a reduction, instances such as these should be flagged for review.

The property referenced above has been referred to MPAC for review.

Year over Year Analysis of Missing Roll Numbers and Class Types

The review process can be further improved by comparing and analyzing missing roll numbers from current to prior year data provided by MPAC, and a review of changes in property class.

Criteria should be developed and comparative analysis performed of unusual year over year variances in property assessments.

Recommendation:

- 12. City Council request the Director Revenue Services develop additional review criteria and a process to ensure Municipal Property Assessment Corporation provided data is adequately reviewed and validated. At a minimum, the process should include:**
 - a. Review of declining assessment values beyond a certain percentage when compared to the previous year.**
 - b. Developing exception reports to review and reconcile missing roll numbers or roll number changes from one year to the next.**
 - c. Develop a reporting process with Municipal Property Assessment Corporation where data provided by Municipal Property Assessment Corporation include the rationale for changes to property assessment values and property class.**

B.2. Property Tax Calculation and Billing

Council approved property tax rates and tax calculations are entered and performed correctly

After property assessments are updated in the tax billing system, staff perform a number of reconciliations to ensure the accuracy of tax calculations.

We confirmed that City Council approved property tax rates were correctly entered into the system. Tax calculations based on assessment values were performed correctly.

B.3. Property Tax Bills – Savings Available through Electronic Mailing Opportunities

The City is legislatively mandated to provide tax bills through mail or through an online distribution system known as "ePost".

Property tax printing and postage costs over \$1.2 million

In 2014, City property tax printing and postage costs exceeded \$1.2 million. In 2012, the City introduced ePost tax billing to reduce the number of paper tax bills sent to taxpayers. As of February 2015, 15,000 of approximately 740,000 taxpayers were registered for ePost tax billing.

Utility costs \$1.5 million

The City also spent approximately \$1.5 million for postage and printing of utility bills.

Use of electronic billing could save over \$650,000

By increasing subscriptions in electronic billing, significant savings are available when compared to mailing paper bills. A 50 per cent reduction in paper billing for property taxes and water bills would save over \$650,000 dollars annually.

Alternatively, the City should evaluate incorporating an internal internet billing portal among other electronic billing options. According to management, there have been numerous challenges in bringing taxpayers on the ePost subscription system.

More collaboration between the City and Canada Post in developing a strategy for raising the profile of the ePost billing system is needed.

Recommendation:

13. **City Council request the Director Revenue Services to coordinate with Canada Post to evaluate efforts to increase the number of ePost subscribers. Alternatively, the feasibility of introducing other methods of electronic bill delivery should be evaluated.**

C. OTHER ISSUES

C.1. Information Technology Access Controls Require Improvement

Information technology user access should be reviewed periodically

Our review of active Tax Management and Payment System users identified the following issues:

- Use of Generic user ID's to access the Tax Management System. Generic ID's and passwords are subject to potential hacking and when used by multiple users are difficult to track unauthorized activity to a specific user.
- Individuals no longer employed in the Tax Billing Unit with access to the Tax Billing and Payment Systems including students and interns.
- Individuals with current access who have not logged in to the system for over 12 months.

User access should be reviewed periodically.

Recommendations:

14. **City Council request the Director Revenue Services develop and implement a formal access control and review process. A review of user access should occur periodically and unauthorized users removed from authorized user lists.**
15. **City Council request the Director Revenue Services to investigate the feasibility of eliminating the use of generic user ID's and passwords. Each user should be provided a unique user ID and password.**

CONCLUSION

Report identifies opportunities for improving property tax assessment review, appeal and billing processes

This report identifies a number of opportunities to improve the management of property tax assessment review, appeal and billing processes and also highlights the need for the City to have a better coordination and automated processes with MPAC. Based on our review of selected properties additional revenue may be available.

The amount of revenue is based on our review of selected samples. Overall, additional potential revenue upon implementation of recommendations is not determinable at this time.

Implementation of recommendations will improve controls

Implementation of the recommendations contained in this report will improve controls over the administration and review of property assessment data, evaluation and appeal of property assessments, property tax billing and collection of outstanding payments.

**Management’s Response to the Auditor General’s Review of the
Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs)**

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
1.	City Council request the Director Revenue Services develop a process and criteria to review and identify significantly under-valued Payment in Lieu of Tax properties and initiate applications for review when warranted.	X		Agree.	The Director, Revenue Services Division will incorporate criteria and processes to identify significantly under-valued PILT properties within existing processes for taxable properties, and initiate applications for review of PILT properties as warranted. Q3 2016.
2.	City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax amounts paid by the Government are significantly less than requested amounts and take steps to invoke the review process when warranted.	X		Agree.	The Director, Revenue Services Division will incorporate criteria and processes to identify PILT amounts paid that are significantly less than requested, initiating reviews/action as warranted to address shortfalls. Q3 2016.
3.	City Council request the Director Revenue Services report annually to Council on Payments in Lieu of Tax amounts which remain unpaid. Reported information should include agency name, assessment values, number of years outstanding and amounts received, and action taken to address Payment in Lieu of Tax disputes.	X		Agree.	The Director, Revenue Services Division will report annually to Council on PILT amounts that remain unpaid. Status: Completed Q4, 2015, with staff report to Oct. 5, 2015 Government Management Committee (Item GM7.1).

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	<u>Action Plan/ Time Frame</u>
4.	<p>City Council request the Director Revenue Services develop a process and criteria to identify where Payment in Lieu of Tax payments may be deemed unreasonably delayed and request supplementary payments where warranted.</p>	X		Agree.	<p>The Director, Revenue Services Division will develop criteria and processes to identify PILT payments deemed unreasonably delayed and initiate action as warranted. Q3 2016.</p>
5.	<p>City Council request the Director Revenue Services automate the process for identifying, analyzing and managing the assessment review process. At a minimum, automation should include identification of potential properties for appeal:</p> <p>a. Based on Sales and Current Value Assessment comparisons</p> <p>b. Low Current Value Assessment compared to previous year.</p> <p>Consideration should be given to potential benefits of leveraging a case management system such as Integrated Business Management System to track properties under review.</p>	X		Agree.	<p>The Director, Revenue Services will initiate changes to automate the process for identifying, analyzing and managing the assessment review process to identify potential properties for appeal, including:</p> <p>a) Sales Vs. (CVA) comparisons</p> <p>b) Low (CVA) compared to previous year.</p> <p>Consideration will also be given to system modifications or procuring case management software to track the properties under review.</p> <p>Status: Currently undertaken or implementation underway. Completion by Q3 2016 (for 2017 taxation year).</p>

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	<u>Action Plan/ Time Frame</u>
6.	City Council request the Director Revenue Services review all properties identified during the audit for potential appeal.	X		Agree.	The Director, Revenue Services to review all properties identified during the audit for potential appeal. Status: Completed Q4 2015. All properties have been brought to MPAC's attention and have been or will be corrected/acted upon or appeals initiated, as warranted.
7.	City Council request the Director Revenue Services to coordinate with Municipal Property Assessment Corporation on the potential for electronically sharing data, including the status of Municipal Property Assessment Corporation inspections and related assessments on closed building permits between the City and Municipal Property Assessment Corporation.	X		Agree.	The Director, Revenue Services will coordinate with MPAC on potentially sharing electronic data on building permit status/MPAC inspections. Status: Revenue Services brought this matter to MPAC's attention in Q3 2015. MPAC has advised that this capability does not currently exist within their systems, but that future systems enhancements will consider this need. Revenue Services to communicate with MPAC in Q2 2016 to discuss the potential for the electronic sharing of building permit status information. Q2 2016.

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	<u>Action Plan/ Time Frame</u>
8.	City Council request the Director Revenue Services to evaluate the potential for reviewing similar non-residential properties in close proximity to recently sold properties which have been appealed by the City.		X	Disagree. The Auditor General has been advised that this recommendation would require that Revenue Services staff duplicate the work of MPAC by having to validate assessments for potentially a large number of non-residential properties (sold or unsold). This is well beyond the scope of Revenue Services mandate, and well outside of available staff expertise and available staff resources to conduct such assessments.	
9.	City Council request the Director Revenue Services to develop a process to periodically review tax exempt properties to determine the appropriate tax status of such properties.	X		Agree.	The Director, Revenue Services will implement and document processes to review tax exempt properties to determine appropriate tax status. Q3 2016.
10.	City Council request the Director Revenue Services to follow-up with Municipal Property Assessment Corporation on the status of the properties identified during the audit. Those properties deemed taxable should be corrected and billed accordingly.	X		Agree.	The Director, Revenue Services will follow-up with MPAC on the status of the properties identified during the audit, and take action as necessary to correct billings where required. Status: All properties have been brought to MPAC's attention and have been or will be corrected/acted upon, as necessary. Status: To be completed by end of Q4 2015.

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
11.	City Council request the Director Revenue Services to evaluate the feasibility of reviewing high value under-assessed residential properties and request Municipal Property Assessment Corporation to review and update for the next roll return when appropriate.	X		Agree.	The Director, Revenue Services will evaluate the feasibility of reviewing high value under-assessed residential properties and request MPAC to review and update for the next roll return as appropriate. Q2 2016 for 2017 taxation year.

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
12.	<p>City Council request the Director Revenue Services develop additional review criteria and a process to ensure Municipal Property Assessment Corporation provided data is adequately reviewed and validated. At a minimum, the process should include:</p> <p>a. Review of declining assessment values beyond a certain percentage when compared to the previous year.</p> <p>b. Developing exception reports to review and reconcile missing roll numbers or roll number changes from one year to the next.</p> <p>c. Develop a reporting process with Municipal Property Assessment Corporation where data provided by Municipal Property Assessment Corporation include the rationale for changes to property assessment values and property class.</p>	X		Agree.	<p>The Director, Revenue Services will develop additional review criteria and a process to ensure MPAC provided data is adequately reviewed and validated.</p> <p>Status: Items (a) and (b) are already currently undertaken, and implementation of item (c) is currently underway. Expected completion Q4 2016.</p>

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> (Comments are required only for recommendations where there is disagreement.)	<u>Action Plan/ Time Frame</u>
13.	City Council request the Director Revenue Services to coordinate with Canada Post to evaluate efforts to increase the number of ePost subscribers. Alternatively, the feasibility of introducing other methods of electronic bill delivery should be evaluated.	X		Agree.	The Director, Revenue Services will work with Canada Post to determine methods to increase enrolment in ePost. Status: The Division has initiated a capital project to begin in 2016 that will provide for electronic billings for property tax and utility. Expected implementation of electronic billing by mid-2017.
14.	City Council request the Director Revenue Services develop and implement a formal access control and review process. A review of user access should occur periodically and unauthorized users removed from authorized user lists.	X		Agree.	The Director, Revenue Services will develop a comprehensive Security Policy and Procedures document that outlines access controls and review processes, including periodic reviews of user access and removal of unauthorized users. Status: Completed Q3 2015.

<u>Rec No</u>	<u>Recommendation</u>	Agree (X)	Disagree (X)	<u>Management Comments:</u> <i>(Comments are required only for recommendations where there is disagreement.)</i>	<u>Action Plan/ Time Frame</u>
15.	<p>City Council request the Director Revenue Services to investigate the feasibility of eliminating the use of generic user ID's and passwords. Each user should be provided a unique user ID and password.</p>	X		Agree.	<p>The Director, Revenue Services will investigate the feasibility of eliminating the use of generic user ID's and passwords.</p> <p>Status: Completed Q3 2015. Unique user ID's and passwords have been set up to replace generic user ID's. There remain certain system-related support functions that utilize a generic id that will remain active but reserved for emergency use only. A log will be maintained for audit review that will list the last login date, time, workstation id and business reason for emergency use.</p>