



Office of the City Auditor

CONSENT CALENDAR

March 15, 2005

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Parcel Based Special Taxes, Fees, and Assessments Audit

RECOMMENDATION

That Council request the City Manager to ensure that the recommendations in the attached report are fully implemented, and to report back no later than September 13, 2005, regarding the implementation status of each recommendation in the attached report. A date should be set for a follow-up report to Council if any recommendations remain unimplemented at the time of the September report.

SUMMARY

The attached Parcel Based Special Taxes, Fees, and Assessments Audit was performed to evaluate the internal controls and identify risk for the parcel based assessment processes, and to determine whether the:

- Parcel/property data used for assessments is materially accurate and complete.
- Assessments are computed correctly.

The parcel based special taxes, fees, and assessments under review are the City Street Lighting, City Landscape/Parks, City Library Services, Paramedic Supplement, Physically Disabled, and CFD1 Disaster Fire imposed by the City; and the Berkeley School Tax and School Maintenance Tax that are imposed by the Berkeley Unified School District. In addition, we followed up on major findings from our two prior-year audits: Landscape and Park Maintenance Assessment Fund Review (November 1994) and Clean Storm Water Assessment Audit (October 1995). The review was for tax year 2003-2004 (July 1, 2003 to June 30, 2004) parcel data and current procedures. Audit fieldwork began on May 19, 2004, and concluded on November 5, 2004. The findings identified in the audit were:

New Findings:

- Finding 1 Three residential parcels were erroneously excluded from the assessment roll.
Finding 2 A few parcels were not properly assessed because zero building square footage (BSFT) was assigned to the parcels.
Finding 3 There is likelihood that the BSFT for some parcels might have been understated or overstated, resulting in improper assessments.
Finding 4 \$1.2 million could be gained by the City and \$0.8 million could be gained by the Berkeley Unified School District if parcel based special taxes were assessed on non-public exempt entities.

- Finding 5 There are concerns over internal controls over the current procedures in recording taxable building square footage.
- Finding 6 There are opportunities for inadvertent failure to assess properties.
- Finding 7 Incorrect rates were used to compute assessments on some parcels, resulting in immaterial underassessments.
- Finding 8 The rate factors used to compute the Clean Storm Water Fees have not been changed since their adoption in 1991, ignoring the impact of inflation and leading to fund deficits.

Clean Storm Water (CSW) Assessment Audit (October 1995) (Finding still outstanding):

- Finding 9 Public agencies and the City of Berkeley are not assessed Clean Storm Water Fees.
- Finding 10 Parcel square footage used to calculate the Clean Storm Water Fees was not always correct.

Landscape and Park Maintenance Assessment Fund Review (November 1994) (Finding still outstanding):

- Finding 11 The City does not know if all assessment data sent to the County is included on the County's property tax bills.

Safety Issues:

- Finding 12 The Administration Regulation - "Use of Bicycles on City Business" that stipulates the requirements for using bicycles on City business is not posted on iCobWEB. Some City departments may not be aware of the official existence of this Administrative Regulation and its requirements.
- Finding 13 Documented safety inspections were conducted annually instead of semiannually on office personnel and monthly on non-office operation (public area) at the Planning Department as required by the Injury and Illness Prevention Program.

FISCAL IMPACTS OF RECOMMENDATION

The following revenue and potential gain were identified:

- The audit identified 23 properties that were potentially underassessed or not assessed. The total estimated amount of unbilled taxes that can be back billed for tax year 2003-2004 is approximately \$32,000. This amount may be higher if the identified properties also escaped taxes in previous years.
- Potential annual gain by the City may be as high as \$1.2 million if non-public exempt entities are assessed for City Landscape/Parks, City Library Services, Paramedic Supplement, Physically Disabled, and CFD1 Disaster Fire Tax.
- Potential annual gain by the Berkeley Unified School District may be as high as \$0.8 million if non-public exempt entities are assessed for Berkeley School Tax and School Maintenance Tax.
- If the capital improvement portion of the Clean Storm Water Fee is assessed on properties held by non-City public agencies such as the Regents of the University of California, the East Bay Regional Park District, and the Berkeley Unified School District, it will generate \$215,000 of additional revenue to the City annually.

CURRENT SITUATION AND ITS EFFECTS

Finance has already back billed some of the unbilled taxes identified in this audit. Recommendations will be implemented to strengthen internal controls over the procedures in recording building square footage and to prevent inadvertent exclusion of properties from taxation.

RATIONALE FOR RECOMMENDATIONS

Misstatement of parcel square footage directly impacts the City's revenue streams. Excluding the Berkeley School Tax and School Maintenance Tax, which are imposed by the Berkeley Unified School District, the other parcel based special taxes, fees, and assessments reviewed during this audit generated a total revenue of \$26 million in FY 2003. This revenue accounted for eight percent of the City's revenue from all sources for the same year. As new processes for recording parcel data and assessments are being developed and implemented, it is essential to incorporate adequate internal controls to provide reasonable assurance that assessments are accurately compiled and material errors are timely identified and corrected. In addition, the City should promptly collect the unbilled taxes identified in this audit if they have not already been collected.

CONTACT PERSON

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Approved:

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