

Office of the City Auditor

CONSENT CALENDAR
December 15, 2009

To: Honorable Mayor and Members of the City Council
From: Ann-Marie Hogan, City Auditor
Subject: Audit: Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction

RECOMMENDATION

Request the City Manager to report back during or before June 2010 on the implementation status of each of the City Auditor's recommendations in the attached report. Report back no later than every six months, thereafter, until all recommendations have been fully implemented.

SUMMARY

A performance audit was conducted to determine:

- Whether the City has adequate processes in place for submitting accurate taxable building square footage changes to the County Assessor's Office for property tax reassessments.
- If taxable building square footage is accurately and properly captured in the City's data-management system for special taxes and assessments.

Planning, Finance, and Information Technology have performed substantial work in response to previous property tax audits. However, the City risks losing tax revenue or overcharging property owners while the problems the audit identifies continue.

1. Finance is unable to confirm and monitor the County of Alameda's building activity reassessments.
2. Finance and Planning have not clearly assigned responsibilities and Planning performs unnecessary work.
3. Planning did not follow agreed upon procedures.
4. Planning staff have unnecessary access to the taxable building square footage fields.
5. Finance did not document internal control reviews.

6. Planning delayed submitting building-permit activity reports to the County Assessor's Office and staff did not use up-to-date written instructions.
7. Planning does not investigate expired permits.

FISCAL IMPACTS OF RECOMMENDATION

Over \$87 million in City of Berkeley 2008 fiscal year revenue was attributable to property taxes. This included \$58.4 million in ad valorem taxes and \$29 million in special taxes. In addition, \$25.3 million of Berkeley Unified School District 2008 fiscal year revenue was attributable to special taxes.

As a result of this audit, Finance retroactively billed \$17,141 in special taxes omitted from the 2008/2009 tax roll. Over the next five years, those taxes will generate \$85,705 in tax revenue: \$40,430 for the City and \$45,275 for the School District. Implementation of our recommendations could lead to additional revenue recovery.

RATIONALE FOR RECOMMENDATION

Implementing our recommendations will reduce the risk of lost revenue and reduce the risk of overcharging taxpayers.

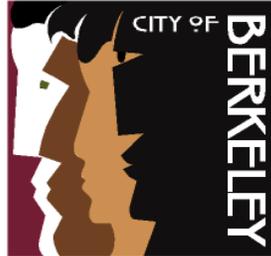
CONTACT PERSON

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Attachments:

- 1: Audit: Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction

City of Berkeley



Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction

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Presented to Council December 15, 2009

**Improved Workflow Systems Will Help Ensure
Property Taxes are Adjusted for New Construction**

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I. Executive Summary

Are systems in place to maximize property taxes? There are some, but they aren't working properly.

Ad valorem tax revenue:

Monitoring the County will help ensure the City receives its due revenue.

Finance should monitor the County Assessor to ensure that new construction is taxed.

- The City relies on the County to assess new construction. Finance does not have a system in place to ensure the work was performed. (Finding 1)

Special tax revenue:

Finance needs to know the correct building size to tax fairly.

The City's special taxes are designed to be fair and equitable.

- While other cities' special taxes may be based on a flat rate, the City of Berkeley's are based on building size. The City's special tax revenues are designed to be fair and equitable, but determining the tax can be complex. If Finance has the wrong square footage, either the City and the School District lose revenue, or taxpayers are overcharged.
- Finance and Planning have not clarified responsibilities for capturing building square footage changes. (Finding 3)
- Finance and Planning have not clearly communicated methods for capturing building square footage changes. (Finding 3)

\$17,141 in special taxes went unbilled because Planning did not use agreed upon procedures.

Planning must follow procedures to ensure the submission of building changes to Finance.

- Planning did not use agreed upon procedures to alert Finance of building square footage changes. Result: Four parcels were under-assessed \$17,141. (Finding 4)

Planning should limit access to building square footage fields and Finance should document internal control reviews.

- Too many people in Planning can make changes to the new taxable square footage fields. (Finding 6)
- The Revenue Collection Manager did not document her internal control reviews. (Finding 7)

II. Audit Objectives and Results

This audit was planned to determine whether the City has adequate processes in place for submitting accurate taxable building square footage changes to the County Assessor's Office for property tax reassessments. The auditors also reviewed whether taxable building square footage is accurately and properly captured in the City's data-management system for special taxes¹. Objectives were met by a) assessing whether building plans are properly and timely submitted to the County Assessor's office; and b) assessing the reliability of the building square footage changes captured during the permitting process.

Planning and Finance Should Improve Workflow Systems

Finance and Planning need effective workflow systems to ensure that property taxes² are adjusted to account for new construction. The departments have some systems in place, but improvements are needed in the areas of coordination, communication, and accountability.

Planning and Finance have to work together to protect the City's interests.

Not all home remodels result in increased property taxes³. However, adding building area *will* increase property taxes. For the City of Berkeley to tax additions correctly, Finance and Planning must work together, as well as with the Alameda County Assessor's Office. Finance and Planning, with help from Information Technology, have improved systems for capturing new building area. However, Finance and Planning are not communicating effectively and have not clearly assigned responsibilities.

Prior Audit Recommendations

Three prior audit reports had recommendations that addressed special taxes, fees, and assessments:

- [Parcel Based Special Taxes, Fees, and Assessments Audit](#)⁴ (March 2005)
- [Clean Storm Water \(CSW\) Assessment Audit](#) (October 1995)
- [Landscape and Park Maintenance Assessment Fund Review](#) (November 1994)

¹ For the purpose of this audit, "special taxes" refer to both special taxes and assessments: Special taxes are used for a specific purpose, e.g., landscaping. Assessments are used for public improvements, e.g., street lighting.

² Refers to ad valorem taxes, special taxes, and property assessments.

³ For a remodel to result in increased property taxes, the improvement or fixture must be converted to "*the substantial equivalent of a new improvement or fixture.*" California Revenue and Taxation Code Division 1, Part 0.5, Chapter 3, Sections 70.2.b.

⁴ Audit also included a recommendation to obtain a legal opinion on the taxability of floating homes. On June 11, 2009, the City Attorney issued his opinion that taxing floating homes would require voter approval. The estimated cost to add the necessary measures to the ballot is \$144,000.

The City could earn an additional \$1.8 million and the School District could earn an additional \$2 million in tax revenues, annually.

On [June 2, 2009](#), the City Manager reported as “not implemented” the recommendation to consider placing a measure on the ballot to extend legally allowable parcel-based special taxes to non-public exempt entities. On July 21, 1998, Council approved a business license tax on large non-profits, which was then approved by the voters. In light of this tax, as well as the current economic climate, the City Manager is advising against implementing the recommendation for the proposed ballot measure. Implementing this recommendation could result in additional tax revenue of \$1.8 million for the City and \$2 million for the School District, annually.⁵

Although the City Manager reported to Council that certain recommendations from the three prior audits were implemented, some concerns are still outstanding:

- Responsibilities for capturing building changes are not clearly defined.
- Improper changes could be made to building square footage fields.
- Internal control reviews are not documented.
- Expired permits are not investigated.

Any of the above internal control weaknesses could result in properties being under- or over-taxed.

III. Auditee Accomplishments

According to Information Technology and Finance, the two departments collaborated to implement:

- A new tax assessment system with new controls and auditing functions.
- New quality assurance reports built into the assessment system to further streamline the detection, tracking, and reconciliation of data anomalies.
- A new address activity transfer program. This enables improved auditing and data integrity of addresses used for building permits, business license, etc.
- A new parcel lineage function to orchestrate and track parcel splits and combines.
- A new function to reconcile City billing to County collection.

Planning staff are “always friendly and knowledgeable.”
– Permit Applicant

Planning stated they recently reviewed 180 building activity records to ensure that taxable building square footage was properly captured for fiscal year 2009.

⁵ Estimates may include churches, which appear to be tax-exempt per California Constitution, Article 13, section 3, subdivision f.

IV. Background

City Ad
Valorem
Taxes FY08:
\$58,425,145

Property taxes are the City of Berkeley's largest revenue source: \$87.4 million in fiscal year 2008. This includes \$58.4 million in ad valorem taxes and \$29 million in special taxes.

City Special
Taxes FY08:
\$28,960,957

Over \$25 million of Berkeley Unified School District (School District) revenues came from Measure A⁶ and Measure BB⁷ special taxes in fiscal year 2008.

BUSD
Special
Taxes FY08:
\$25,320,153

Ad valorem taxes are calculated by the County and are based on the assessed **taxable value** of real property. The City of Berkeley's 2008/2009 ad valorem tax rate is 1.2616%. This means that the 2008/2009 ad valorem taxes for a Berkeley home assessed at \$500,000⁸ are \$6,308.

The County of Alameda Assessor's Office establishes the taxable value⁹ for City of Berkeley properties. Source documents for assessing values include change in ownership records, building plans, and building permits.

Declines in property value can reduce ad valorem taxes. Additions or improvements to buildings can increase ad valorem taxes.

Declines in
real property
values do not
reduce the
City's special
tax revenues.

City of Berkeley **special taxes** are calculated by City staff. Many of these taxes are determined by multiplying a Council or voter approved tax rate by taxable building square footage. Library, Parks, and Paramedic services are among the Berkeley services supported by special taxes. Increases or decreases to the market value or the assessed value of real property have no affect on the City's special taxes.

The Schools District's Measure A and Measure BB special taxes are also calculated using taxable building square footage. The School District is dependent on the effectiveness of the City's internal control system to properly calculate Measure A & BB special taxes. Although these taxes are based on City data and calculations, the School District receives the special tax revenues directly from the County Tax Collector.

⁶ Measure A taxes are used to reduce class sizes and provide school enrichment programs.

⁷ Measure BB taxes are used for school safety, and essential building and grounds maintenance.

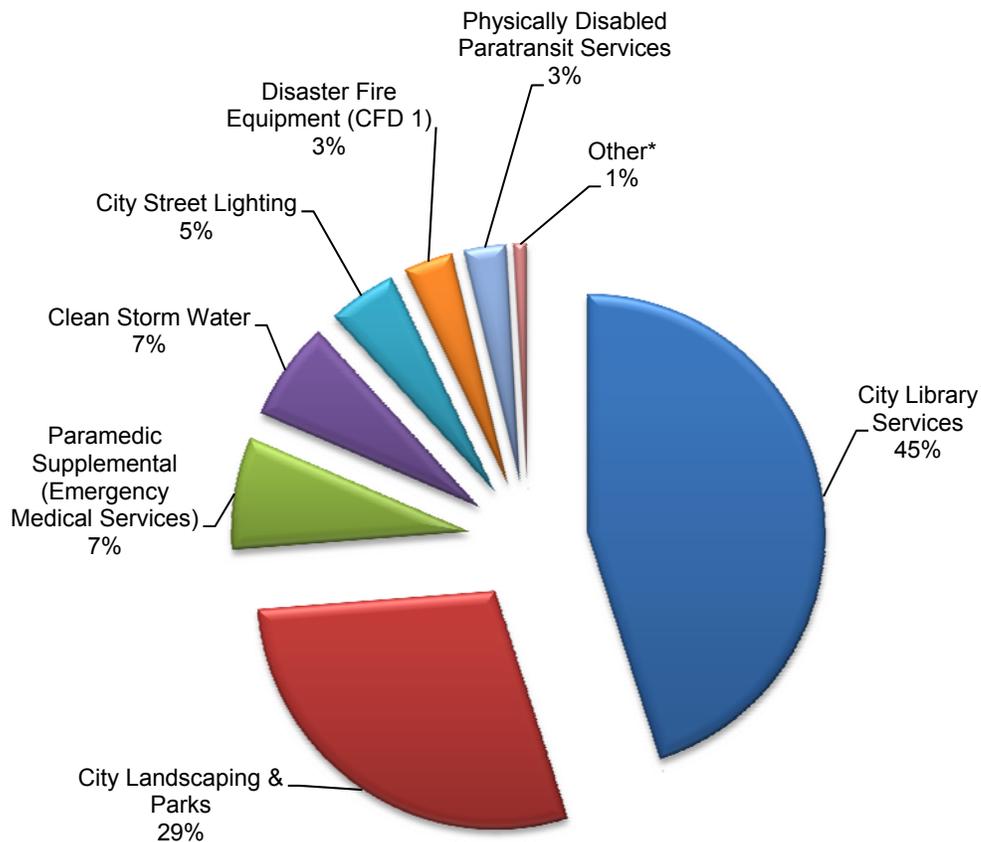
⁸ Homeowner exemption taken into consideration.

⁹ The County Assessor establishes the taxable value for **ad valorem** taxes only.

The City of Berkeley collected \$29 million¹⁰ in special taxes in fiscal year 2008:

Special Tax Description	Actual Revenue FY 2008
City Library Services	\$ 13,050,019
City Landscaping & Parks	8,316,575
Paramedic Supplemental (Emergency Medical Services)	2,217,798
Clean Storm Water	1,950,637
City Street Lighting	1,360,212
Disaster Fire Equipment (CFD 1)	967,417
Physically Disabled Paratransit Services	838,111
Other*	260,188
Total:	\$ 28,960,957

* Includes the Telegraph, Solano Avenue, and North Shattuck Business Improvement Districts (\$179,506), and Utility Assessment Districts (\$80,682)



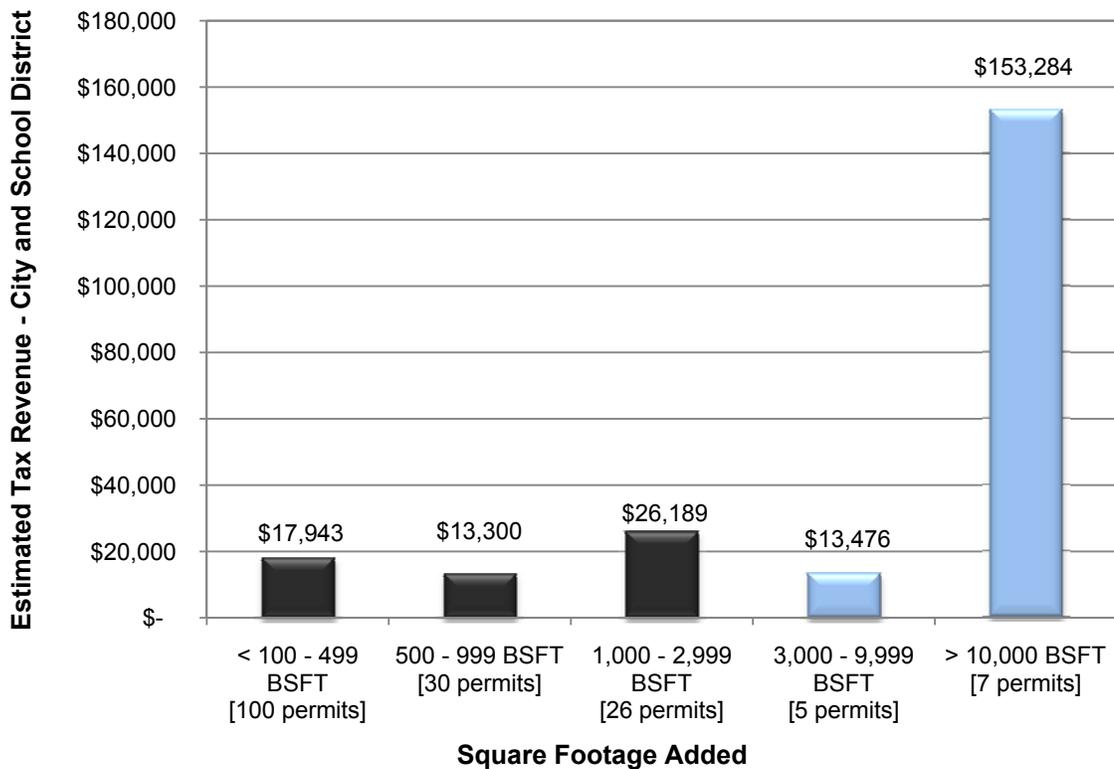
¹⁰ Includes Clean Storm Water (\$1,950,637) and Utility Assessment Districts (\$80,682), which are not based on building square footage.

Identifying New Taxable Building Square Footage

New building square footage is identified through building permit activity. One hundred and sixty-eight building projects with over 300,000 new taxable square feet were completed in fiscal year 2008¹¹. Result: \$1.1 million in estimated special tax revenue over a 5-year period¹². That's \$580,484 for the City and \$540,476 for the School District. Ad valorem taxes would also increase.

Finance comprehensively reviewed all building projects adding 3,000 square feet or more. That represents an estimated 74% of new special tax and assessment revenues resulting from building activity in 2008 (see below). Finance reviewed a 20% sample of all other building projects completed in fiscal year 2008.

**Estimated Tax Revenues (1 year) Identified through Building Activity
(Construction Completed Fiscal Year 2008)**



- 20% sample reviewed by Finance.
- Comprehensively reviewed by Finance.

¹¹ Projects completed in fiscal year 2009 include the Brower Building. Portions of this 200,000+ square foot project may be tax-exempt. At the time this report was prepared, the taxable portion was unknown; therefore, the fiscal year 2008 projects are discussed.

¹² A 5-year period is provided as an example; however, the new building square footage will continue to generate revenue, indefinitely.

V. Findings and Recommendations

Findings related to Ad Valorem (According to Value) Taxes

Finding 1: Finance is unable to confirm or monitor ad valorem tax increases on a parcel-by-parcel basis.

Adding square footage to a home increases ad valorem taxes.

The County Assessor does not notify Finance when it reassesses a parcel with new improvements. Finance has not asked the County to provide this information. Without it, Finance is unable to confirm and monitor ad valorem tax adjustments based on building activity.

Improved information sharing between the County and Finance would help Finance ensure that the City receives its due share of ad valorem taxes.

City Manager's Response to Finding

Agree.

Recommendations and City Manager's Responses

1.1 **Finance** should request data from the County that identifies individual property value changes based on building permit activity.

Finance agrees with the recommendation. Implemented October 2009.

1.2 Annually, **Finance** should select a sample of building permits and, using the County data (recommendation 1.1), determine whether it appears the County took action on the building activity. **Finance** should document and maintain evidence of reviews.

Finance agrees with the recommendation. If the County is able to provide the updated valuation data based on building permit activity, Finance will perform annual reviews. Finance will request building activity reports from Planning to select a review sample. Recommendation will be implemented by May 2010.

Finding 2: Planning should timely submit building-permit activity reports to the County of Alameda Assessor’s Office and ensure that staff uses the most up-to-date written instructions.

Planning Does Not Deliver Building Activity Reports to the County Timely

Planning does not submit building activity reports to the County timely. Planning did not submit the reports for May, June, July, August, and September 2008 until October 2008.

Information Technology developed an electronic system of gathering monthly permit data. California law¹³ requires timely submission of this information to the County. The County Assessor uses this information to identify property that may require reassessment.

It is better to receive tax revenue sooner rather than later.

Although Planning sends the reports, the delays in submitting the information could affect how soon the City receives its due tax revenues.

Planning and Information Technology Provided Inconsistent Written Instructions

There were three sets of “Gathering Alameda County permit data” instructions. Each identified a different system navigation path. Information Technology (IT) stated that the County made several changes to their requirements for permit data. To extract the requested information from the Building Permit module, IT had to change the navigation paths. Information Technology updated the instructions and provided them to Planning. However, Planning continued to maintain the outdated versions. Multiple versions of instructions could result in errors and confusion.

City Manager’s Response to Finding

Agree.

Recommendations and City Manager’s Responses

2.1 **Planning** should submit the building activity reports to the County monthly, and maintain a centralized log of the dates delivered.

Planning agrees with the recommendation. Implemented April 2009.

¹³ Revenue and Taxation Code Section 72a.

2.2 **Planning** should ensure staff uses the most up-to-date instructions for gathering permit data.

Planning agrees with the recommendation. Implemented April 2009.

Findings Related to Special Taxes (Parcel Taxes)

Finding 3: Finance and Planning have not clearly assigned responsibilities for capturing taxable building square footage.

Some taxable building square footage changes may be captured inaccurately because Finance and Planning have not clearly identified and communicated responsibilities. Result: the City could lose money or overcharge taxpayers.

The City benefits when departments work together.

The Permit Center Coordinator believes plan checkers verify the new taxable building square footage that permit specialists enter into the building permit module. However, the Building & Safety Division Manager stated plan checkers do not perform this review. Planning staff believe Finance’s land data analyst reviews 100% of all taxable building square footage changes. However, Finance’s policy is to comprehensively review all pending transactions for adjustments of 3,000 square feet or greater, and a 20% sample of all other transactions. Finance relies on Planning to properly capture the taxable building square footage for the remaining transactions.

The City could be losing money or overcharging taxpayers.

Finance created the Taxable Building Square Footage Change Worksheet (Worksheet) to help Planning capture new taxable building square footage. The key functions of the Worksheet are “to gather key data at the initial point-of-contact” and “to hold applicants accountable for their stated square footage in the case of a claim.” Permitting staff receive the Worksheets from permit applicants. Permitting then places the Worksheets in a letter tray for Finance¹⁴.

¹⁴ Finance picks up the Worksheets and keeps them in binders grouped by calendar year. The Land Data Analyst uses the Worksheets when performing his 20% sample review.

A sample of 25 Worksheets was reviewed for reliability:

To be useful, work tools must be used correctly.

- 48% listed a different taxable building square footage than identified in the building permit module.
- 100% had no evidence of review.
- 52% were not stamped as received.
- 20% were not dated by the applicant.
- 12% were not signed by the applicant.
- 12% did not include the property parcel number.
- 8% did not include the permit number.

Five factors appear to have contributed to these errors:

The City uses an equitable yet somewhat complex method to calculate special taxes.

1. Identifying the *taxable* building square footage based on the Berkeley Municipal Code definition can be complex and time consuming. Some areas, such as elevator shafts and stairwells, are not taxable and must be deducted from the building square footage. Result: The correct taxable square footage is difficult to identify.
2. The Berkeley Municipal Code definition is different from Planning's definition of building square footage. As a result, Planning does not believe its staff have the time and expertise to verify the taxable building square footage.
3. No one was assigned the responsibility of reviewing the Worksheets for accuracy and completeness.
4. Permit applicant misstated the square footage on the Worksheet. The permit specialist noted the error, but a correction was not made to the Worksheet.
5. Permit applicant submitted amended building plans at a later date.

If an applicant does not sign the Worksheet and/or the taxable square footage on Worksheet is inaccurate, it has little value in holding an applicant accountable for their stated square footage in the case of a claim.

Planning is Performing Unnecessary Work

Finance provided Planning the Taxable Building Square Footage Change Worksheet (Worksheet) to capture taxable square footage changes. Planning is also using the Worksheets for tax-exempt garage demolitions and rebuilds. This creates unnecessary work.

City Manager's Response to Finding

Agree.

Recommendations and City Manager's Responses

- 3.1 **Planning and Finance**, with the help of **Information Technology**, should perform and document a joint workflow analysis that reviews current practices and clearly outlines responsibilities for capturing taxable building square footage. **Planning and Finance** should train staff on their assigned responsibilities and share the results of the analysis so that everyone has a comprehensive understanding of their work's impact on other departments.

Planning, Finance, and Information Technology agree with the recommendation. Partially implemented April 2009. Recommendation will be fully implemented by May 2010.

- 3.2 **Planning and Finance** should meet and document the usefulness of the Taxable Building Square Footage Change Worksheet. If the Worksheet provides value, then both departments should determine who is responsible for ensuring the Worksheets are reviewed for completeness and accuracy.

Planning and Finance agree with the recommendation. As of June 2009, the Permit Coordinator compares the taxable square footage on the Worksheet to the taxable square footage in the building permit module. She also reviews the form for completeness and initials the Worksheet to document her review. Partially implemented June 2009. Recommendation will be fully implemented by May 2010.

- 3.3 **Planning** should require permit applicants to amend the Worksheet with the appropriate taxable building square footage, if the square footage written on the Worksheet by the applicant is incorrect. **Planning** should obtain a revised Worksheet, if an applicant submits an amended building plan. Implementation of this recommendation depends upon the outcome of recommendation 3.2.

Planning agrees with the recommendation. If a Permit Specialist notices that the stated square footage appears incorrect, the applicant is required to amend their Worksheet. Additionally, if an applicant returns with amended building plans, the Permit Service Center requires the applicant to complete a new Worksheet. The permit specialist writes "revised" across the top. Implemented June 2009.

- 3.4 **Planning** should eliminate the use of Taxable Building Square Footage Change Worksheets for building activity with no effect on taxable square footage. Implementation of this recommendation depends upon the outcome of recommendation 3.2.

Planning agrees with the recommendation. Planning no longer uses the Worksheet for building activity that has no effect on taxable building square footage. Implemented June 2009.

- 3.5 The **City Manager** should consider whether increased accuracy and efficiency of special tax calculations is worth the cost of a special election to simplify the Berkeley Municipal Code definition of building square footage. The **City Manager**, with input from **Planning**, should consider aligning the definition with Planning's. The City's practice of using square footage for more equitable distribution of the special tax would not change.

The City Manager agrees with the recommendation. The City Manager, with input from Planning, will perform an analysis to consider whether the current methodology should remain, or if a change would benefit the City. Recommendation will be implemented by October 2010.

Finding 4: Planning staff did not activate tax triggers.

Failure to use tax triggers could have resulted in years of revenue loss.

Tax triggers alert Finance of new building square footage. The triggers include the **certificate of occupancy**¹⁵ for large projects, and the **sheetrock nail inspection**¹⁶ for small-to-medium sized projects.

Planning Did Not Activate the Certificate of Occupancy Tax Trigger

Finance did not bill an estimated \$8,275 in City special taxes and an estimated \$8,540 in School District special taxes because Planning did not activate the certificate of occupancy (CO) tax trigger for one¹⁷ parcel. Planning by-passed agreed upon procedures by using a stand-alone desktop system. Result: Finance did not know that 19,349 square feet should be added to the parcel's land management record.

¹⁵ Includes temporary certificate of occupancy.

¹⁶ The SRN inspection was designed as the default tax trigger.

¹⁷ A random sample of 49 permits expected to have resulted in tax trigger activation was examined. The City processes approximately 200 permits with building square footage changes, annually.

Planning also did not activate the certificate of occupancy (CO) tax trigger for the Brower Building. Planning did provide Finance with a hardcopy of a temporary CO; however, Finance still expected Planning to activate the tax trigger. Finance is not required to calculate special taxes for the Brower Building until the 2009/2010 tax year. Therefore, it appears there was no revenue loss at the time this report was prepared.

Planning Did Not Activate the Sheetrock Nail Inspection Tax Trigger

Finance did not bill an estimated \$459 in City special taxes and an estimated \$428 in School District special taxes because Planning did not activate the sheetrock nail inspection (SRN) tax trigger for three¹⁸ parcels. Building and Safety did not mark two parcels with an approved sheetrock nail inspection, and marked one parcel as requiring a certificate of occupancy, although it was not required. Once the parcel was flagged as requiring a CO, the sheetrock nail inspection no longer acted as the default tax trigger. Result: Finance did not know to add a total of 1,383 of new square footage to the land management system for the three parcels.

**Long-Term Effects of Lost Tax Revenue for the Four Parcels
(Based on Estimates)¹⁹**

	1 Year Loss	5 Year Loss	10 Year Loss	15 Year Loss
City	\$ 8,734	\$ 43,670	\$ 87,340	\$ 131,010
School District	8,968	44,840	89,680	134,520
Total	\$ 17,702	\$ 88,510	\$ 177,020	\$ 265,530
Loss would continue until the City updated its records.				

City Manager’s Response to Finding

Agree.

Recommendations and City Manager’s Response

4.1 **Planning** should work with **Finance** to update the land management system with the omitted building square footage and calculate the required assessments.

¹⁸ A random sample of 49 permits expected to have resulted in tax trigger activation was examined. The City processes approximately 200 permits with building square footage changes, annually.

¹⁹ The lost revenue identified in the table is based on estimates determined at the time fieldwork was performed. Actual revenue received is slightly less: \$17,141 (retroactively billed); \$85,705 over five years; \$171,410 over ten years; and \$257,115 over fifteen years.

Planning and Finance agree with the recommendation. Implemented July 2009.

As a result of this audit, Finance retroactively billed \$17,141 in owed property tax.

4.2 **Finance** should retroactively bill property owners, if appropriate.

Finance agrees with the recommendation. Finance retroactively billed a total of \$17,141.14. Implemented July 2009.

4.3 **Planning** should train staff on the proper use of the tax triggers and ensure that those triggers are used as agreed upon. **Planning** should also provide and document a workflow overview so staff understands how their work impacts various departments, such as Finance.

Planning agrees with the recommendation. Partially implemented April 2009. Recommendation will be fully implemented by May 2010.

4.4 **Finance** should ensure the Brower Building's taxable building square footage is added to the land management system.

Finance agrees with the recommendation. Implemented July 2009.

Finding 5: Planning staff should investigate expired permits.

A permit applicant could complete construction yet allow the permit to expire without calling for a sheetrock nail inspection²⁰. If the inspection is not completed, the tax trigger is not activated and the new taxable square footage is not included in the special tax calculation.

Information Technology developed a report to identify expired or expiring permits to help close this loophole. However, according to the Building and Safety Manager, inspection staff is unable to follow up on expired permits due to staff shortages and time constraints. Result: It is possible for property owners to deliberately or inadvertently underpay their taxes.

City Manager's Response to Finding

Agree.

²⁰ The tax trigger used to help capture new taxable building square footage from small- to medium-sized projects.

Recommendations and City Manager's Responses

- 5.1 **Planning** should follow up on expired permits for building activity that would have resulted in increased tax revenues.

Planning agrees with the recommendation. Planning will incorporate follow up into an existing IT project regarding expiring permits. Recommendation will be implemented by May 2010.

Finding 6: Planning should limit access to the taxable building square footage fields.

Limiting access to data fields reduces fraud risk and protects employees.

Fraud Risk: Too many people in Planning have access to the building permit module taxable square footage fields. These fields store the square footage submitted to Finance for special tax calculations. Plan checkers, building inspectors, and permit specialists have access to these fields, but current practices require that only permit specialists have access. Lack of clearly assigned responsibilities may be why plan checkers and building inspectors have unnecessary access (see Finding 3).

Result: Several people can make inappropriate changes to new taxable square footage without detection. Whether intentional or not, this could result in lost revenue.

City Manager's Response to Finding

Agree.

Recommendation and City Manager's Response

- 6.1 **Planning** should determine which staff require access to the taxable building square footage fields and work with Information Technology to limit access to those people. **Planning** should document and maintain the names of the people that should have access.

Planning agrees with the recommendation. Alternative implemented June 2009: Planning distributes Taxable Square Footage Change Worksheets directly to Finance. Finance reviews 100% of the worksheets to ensure that the square footage transmitted from the building permit module agrees with the Worksheets. Finance discusses any discrepancies with Planning. Once resolved, the Land Management Analyst posts the changes to the land management system. Finance generates a report that identifies all changes made to the land management system and the Revenue Collection Manager signs off on the report to document her review.

Finding 7: Finance should document internal control reviews.

The Revenue Collection Manager stated that she performed periodic, random sample reviews of property changes made by the land data analyst. This includes changes made to taxable building square footage. However, she did not document her work.

Without documentation, the Revenue Collection Manager’s reviews could not be confirmed. Clear documentation allows management to confirm internal controls are in place and operating as intended. It also reduces the likelihood that staff will make improper changes.

The Revenue Collection Manager stated that, going forward, she would begin initialing her work.

City Manager’s Response to Finding

Agree.

Recommendation and City Manager’s Response

7.1 **Finance** should clearly document and maintain evidence of internal control reviews.

Finance agrees with recommendation. Implemented June 2009.

VI. Other Observation

Finance has not updated its “[Annual Real Property Tax Statements](#)” webpage to reflect the current ad valorem tax rate. It appears that this was an oversight. The webpage provides the public with general information about charges on their property tax bill. This includes special taxes, ad valorem rates, and refuse fees.

Finance should update the rates, annually.

VII. Fiscal Impact

Over \$87 million in City of Berkeley 2008 fiscal year revenue was attributable to property taxes. This included \$58.4 million in ad valorem taxes and \$29 million in special taxes. Additionally, \$25.3 million of Berkeley Unified School District 2008 fiscal year revenue was attributable to Measure A and Measure BB special taxes.

Implementing our recommendations will reduce the risk of lost revenue and reduce the risk of overcharging taxpayers. Because of this audit, Finance retroactively billed \$17,141 in special taxes omitted from the 2008/2009 tax roll. Had the omissions not been identified, the revenue loss could have continued, indefinitely.

Over the next five years, the special taxes identified in this audit will generate \$85,705 in tax revenue: \$40,430 for the City and \$45,275 for the School District.

VIII. Conclusion

Finance and Planning have not effectively communicated and coordinated work to properly capture taxable building square footage changes. (Finding 3)

The auditors found:

- Inability to confirm and monitor the County of Alameda's reassessments. (Finding 1)
- Delays in submitting building-permit activity reports to the County Assessor's Office. (Finding 2)
- Outdated written instructions. (Finding 2)
- A lack of clearly assigned responsibilities. (Finding 3)
- A failure to follow agreed upon procedures. (Finding 3)
- Performance of unnecessary work. (Finding 3)
- No investigation of expired permits. (Finding 5)
- Unnecessary staff access to the taxable building square footage fields. (Finding 6)
- Lack of documentation supporting internal control reviews. (Finding 7)

The City risks losing tax revenue or overcharging property owners while the problems this audit identifies continue. However, we do recognize that Planning, Finance, and Information Technology have performed substantial work in response to our previous property tax audits.

We want to thank Planning, Finance, and Information Technology, for their cooperation and assistance during this audit.

Appendix A

Scope and Methodology

Our audit focused on the City of Berkeley's procedures and practices intended to help maximize property taxes. We performed preliminary survey and fieldwork between August 2008 and March 2009. We researched California revenue and taxation laws, as well as City policies, procedures, and practices regarding property tax billings and building permit activities. We examined taxable change worksheets, building activity reports, County Assessor tax reports, and the 2008/2009 secured tax roll; held interviews and discussions with City and County staff; and performed SunGard/HTE²¹ inquiries. The results of our examinations, reviews, interviews, SunGard/HTE inquiries, and discussions are the basis for the findings in this report.

Audit objectives did not rely on the design and effectiveness of information systems controls intended to ensure the reliability of data obtained from the County of Alameda; therefore, they were not evaluated. Additionally, report findings are not based on data obtained from the County's information systems.

Testing, procedures review, and staff interviews indicated that weaknesses related to data obtained from or reliant on information systems existed. These weaknesses are addressed in Findings 3, 4, and 6.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*. Those standards require that we plan and perform our audit to obtain sufficient and appropriate evidence that provides a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides reasonable basis for our findings and conclusions, based on our audit objectives.

This performance audit was initiated by the Auditor's Office and scheduled as part of the fiscal year 2009 Audit Plan. The 2009 Audit Plan was presented to Council on June 24, 2008.

²¹ The City of Berkeley's core financial and work management system.