

Tax Abatement Audit Follow-up

June 2010



Steve March
Multnomah County Auditor

Audit Staff
Craig Hunt

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.



Office of Multnomah County Auditor

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MEMORANDUM

DATE: June 7, 2010

TO: Chair Cogen
Commissioners Kafoury, Willer, Shiprack, McKeel

FROM: Steve March, County Auditor

SUBJECT: Follow-up of the 2008 Audit of Tax Abatement Programs

The following report represents our formal follow-up of the January 2008 audit of Tax Abatement Programs. In that audit we looked at the five tax abatement programs administered by the City of Portland. Multnomah County has long supported affordable housing efforts but is also charged with the responsibility for maintaining an accurate tax roll in relationship to ensuring any tax abatements are properly approved. We found several problems that led to improperly approved abatements and recommended strengthening assurance procedures and monitoring by the Division of Assessment, Recording & Taxation (DART), who originally identified the compliance issues.

DART has successfully addressed all of the 2008 audit's recommendations and is continuing to work with the City of Portland and the Oregon Department of Revenue to improve the administration of the programs. While the City has not completed putting adequate procedures in place for all tax abatement programs, DART is working through issues by way of an intergovernmental workgroup on an ongoing basis.

We appreciate the assistance and cooperation from DART and their efforts in identifying and addressing these tax abatement concerns.

cc Mindy Harris, Randy Walruff

Tax Abatement Follow-Up Report

Background

The Multnomah County Auditor's Office released the Tax Abatement Audit in January 2008. The audit reviewed the participation and role of Multnomah County (County) in five property tax abatement programs administered by the City of Portland (City). The objectives of the audit were to:

Determine whether tax abatement programs were properly approved to provide the City of Portland the authority to exempt property taxes in excess of its share.

Assess whether the County has sufficient assurance that properties qualify to receive property tax exemptions and continue to qualify over the exemption period.

Evaluate whether the Division of Assessment, Recording and Taxation (DART) has adequate controls in place to ensure that County responsibilities for tax abatement programs are met.

The Tax Abatement Audit verified and quantified a number of compliance concerns that were initially identified by DART. The audit also found problems that led to improperly approved tax abatements. The audit's recommendations focused on strengthening assurance procedures and monitoring by DART. We also recommended that Multnomah County, the City of Portland, and the Oregon Department of Revenue collaborate to clarify and update the statutes governing tax abatement programs.

Follow-Up Results

DART has satisfactorily addressed all of the report's recommendations and is continuing to work with the City and the Oregon Department of Revenue to improve administration of the programs. Specific findings that were noted in the report also appear to have been addressed. As determined by our follow-up work, the status of each recommendation is listed below.

Audit Recommendation 1: Data from DART should be provided to the City to help administer the programs.

Resolved. DART provides the City with information for monitoring tax abatement programs on a regular basis. Twice a year DART sends the City ownership changes of tax abatement properties as well as properties that have a mailing address that is different from the property's location. This information will help the City monitor programs where owner occupancy is required. If questions concerning specific properties arise, DART also sends information to the City.

Audit Recommendation 2: The County should request that the City put written procedures in place to administer the tax abatement programs. In addition, County resolution 07-129 called on the City to adopt clear standards, guidelines, and quality control monitoring systems in accordance with the relevant state statutes.

Ongoing. Although DART has implemented this recommendation, the City has fallen short of putting adequate procedures in place for all tax abatement programs. According to DART management, the City has procedures for the Single Family Housing program, but they appear to be incomplete. No written procedures were found for other programs. Some procedures are contained within the state statutes or City code, but they do not always agree. This can lead to frustration for DART and the City as well as builders and applicants. Through the intergovernmental workgroup described below, the County

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should continue to push for the City to adopt written standards and guidelines that align with state statutes for all tax abatement programs.

Audit Recommendation 3: DART should monitor the tax abatement programs and report to the Board of County Commissioners at least annually.

Resolved. DART monitors abatement programs throughout the year. Leaders of the County and City recently established a new workgroup for shared problem solving of issues that arise in the administration of tax abatement programs. Rather than DART directly reporting to the Board, we believe that the new workgroup provides a better problem-solving and communication structure. The members of that group periodically meet to work through problems together and will develop an annual tax abatement program report.

Audit Recommendation 4: DART should develop written procedures for monitoring and any other administrative responsibilities regarding the programs.

Resolved. DART has written procedures addressing its activities for administering and monitoring tax exemptions.

Audit Recommendation 5: Current Oregon Revised Statutes for the tax abatement programs should be clarified and updated.

Ongoing. DART participated in a series of meetings with the Oregon Department of Revenue and the City. These meetings have helped to clarify roles and to address ambiguities in Oregon Revised Statutes that govern the tax abatement programs. Issues that were identified by this group are currently under consideration in the new intergovernmental workgroup.

Other findings In addition to addressing the audit's recommendations, we are pleased that most specific findings identified in the tax abatement report have been addressed.

The original audit found that the City did not always have the level of participation from other taxing jurisdictions legally required to exempt property taxes. Prior to the audit's release the County chose to participate in four of the five programs with the City until their statutory sunset dates. Because the combined tax rate of the City and County accounts for over 51% of the total tax rate in levy areas affected by these four programs, all remaining jurisdictions in the levy areas are obliged to participate.

The County no longer participates in the Rehabilitated Residential program with the City. Further, the City has stopped taking applications for this program. All properties for the Rehabilitated Residential program that were eligible to receive a tax abatement in the 2007-08 tax year will continue to receive an abatement until it expires.

The audit identified properties in the Single Family Housing, Core Area Multiple-Unit Housing, and Transit-Oriented Development programs that did not continue to qualify for an exemption. All of these properties were investigated and the status of the exemptions were resolved.

The audit also found seven properties included in the Single Unit Housing program that were located outside a Homebuyer Opportunity Area (HBO) designated by the City. Exemptions for these properties were canceled. For one of these properties, the taxpayer appealed and will receive a tax abatement for one more year.

In the past, the City did not always provide DART with information by the statutory deadline to put exempt property on the tax roll. Since the audit, DART management reports that the exemption notification process is timely and orderly.

There are other administrative issues for tax abatement programs that have yet to be resolved. DART is currently working with the intergovernmental workgroup to address these issues.

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Scope and Methodology

The objective of this follow-up of the Tax Abatement Audit was to verify the status of its recommendations and to ensure other specific issues identified in the report were addressed. As part of our work, we interviewed the DART Special Program Group Manager and obtained the Special Program Group's annual calendar. We reviewed:

- Properties identified outside of Homebuyer Opportunity Areas for the Single Family Housing program at the time of the audit.
- Properties in the Core Area Multi-Unit Housing and Transit-Oriented Development programs where the exemption was in question at the time of the audit due to ownership changes.
- DART's responses to the Auditor's Office Status of Recommendation surveys for 2009 and 2010.
- Agenda, meeting notes, and tax exemption issues from the new intergovernmental workgroup.
- The Housing Exemption Issues Summary report. This report is a product of meetings between the City, County, and the Oregon Department of Revenue.

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.

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Response



Department of County Management
Division of Assessment, Recording & Taxation

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Randy Walruff
Division Director

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To: Steve March
Multnomah County Auditor

From: Randy Walruff, Division Director
Sally Brown, Program Manager, SPG

Date: May 26, 2010

Re: Response to Follow-up Report to 2008 Tax Abatement Audit

The Division of Assessment, Recording and Taxation (DART), under the Department of County Management, and the Special Programs Group (SPG), would like to recognize and thank you for the time invested in the Follow-up Report to the 2008 Tax Abatement Audit. We appreciate the thoroughness of the report and the opportunity to respond. We agree with your findings and conclusions, and appreciate the acknowledgement of the hard work of our staff, who successfully addressed the specific issues, findings and recommendations of the Audit.

In addition to verifying a number of compliance concerns initially identified by DART, the original Tax Abatement Audit detailed program administration problems and made recommendations as to how Multnomah County could assist the City of Portland as they sought to bring City administered programs into compliance with Oregon law. Your recommendations were a driving force behind our continued commitment to provide extra assistance to city abatement programs with additional reporting, as well as participation in an on-going, intergovernmental committee working toward improving program administration.

We are pleased the Follow-up Report recognizes that DART has successfully addressed all of the report's specific findings and recommendations. The impartial review, findings and recommendations in the report encouraged the continued participation of those involved in the intergovernmental workgroup. Participating members of the workgroup remain focused on collaboration and cooperation in an effort to clarify and update statutes governing tax abatement programs.

Thank you again for providing an examination of our processes, substantiating the program compliance concerns initially raised by DART and recognition of our successes. We appreciate your time and thank you for your policy remarks in connection with our organization.