



Delinquent Real Estate Tax Sale Audit

Presented by the City Auditor's Office

March 16, 2021

Background

Objective:

- The objective for this audit was to look at the Tax Sale Program policies and operations as well as to compile historical information regarding the following:
 - *Number and locations of properties by year and number of years they were delinquent.*
 - *Racial or locational disparities as a result of the Tax Sale Program.*
 - *Cost of collections and fees/revenues collected and uses.*
 - *Property taxes that were written off without entering the Tax Sale Program.*

Scope:

- The scope of the audit covered the history and trends, demographics of properties and owners, cost impacts and unclaimed revenues for a period of up to twenty years, ending December 31, 2019 and the current environment, as data was available.

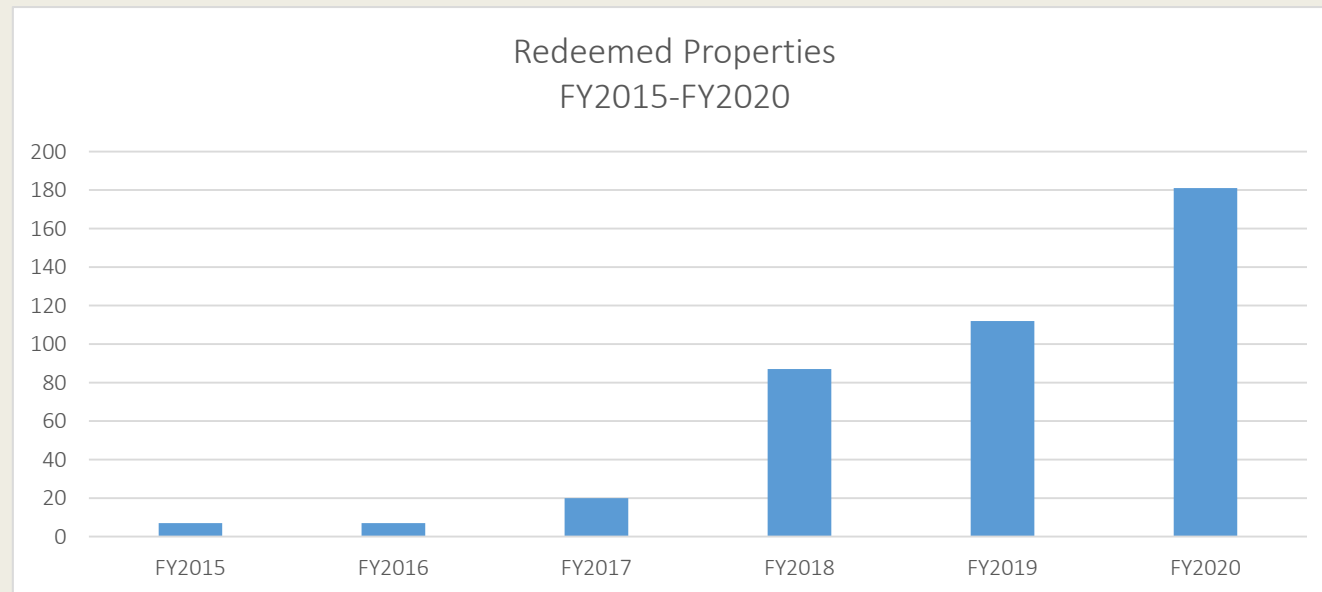
Background:

- The City Attorney's Office is charged with managing the Tax Sale Program. Prior to 2015, the majority of properties auctioned were due to code violations identified by Planning and Development Review. During the scope of the audit, only properties that have been delinquent five or more years are included in the Tax Sale Program. Per Virginia Code §58.1-3965, properties may be sold for delinquent real estate taxes when those taxes are delinquent for two years or one year if the property has been condemned, deemed a nuisance or derelict, or has been declared blighted.

What Works Well

What Works Well:

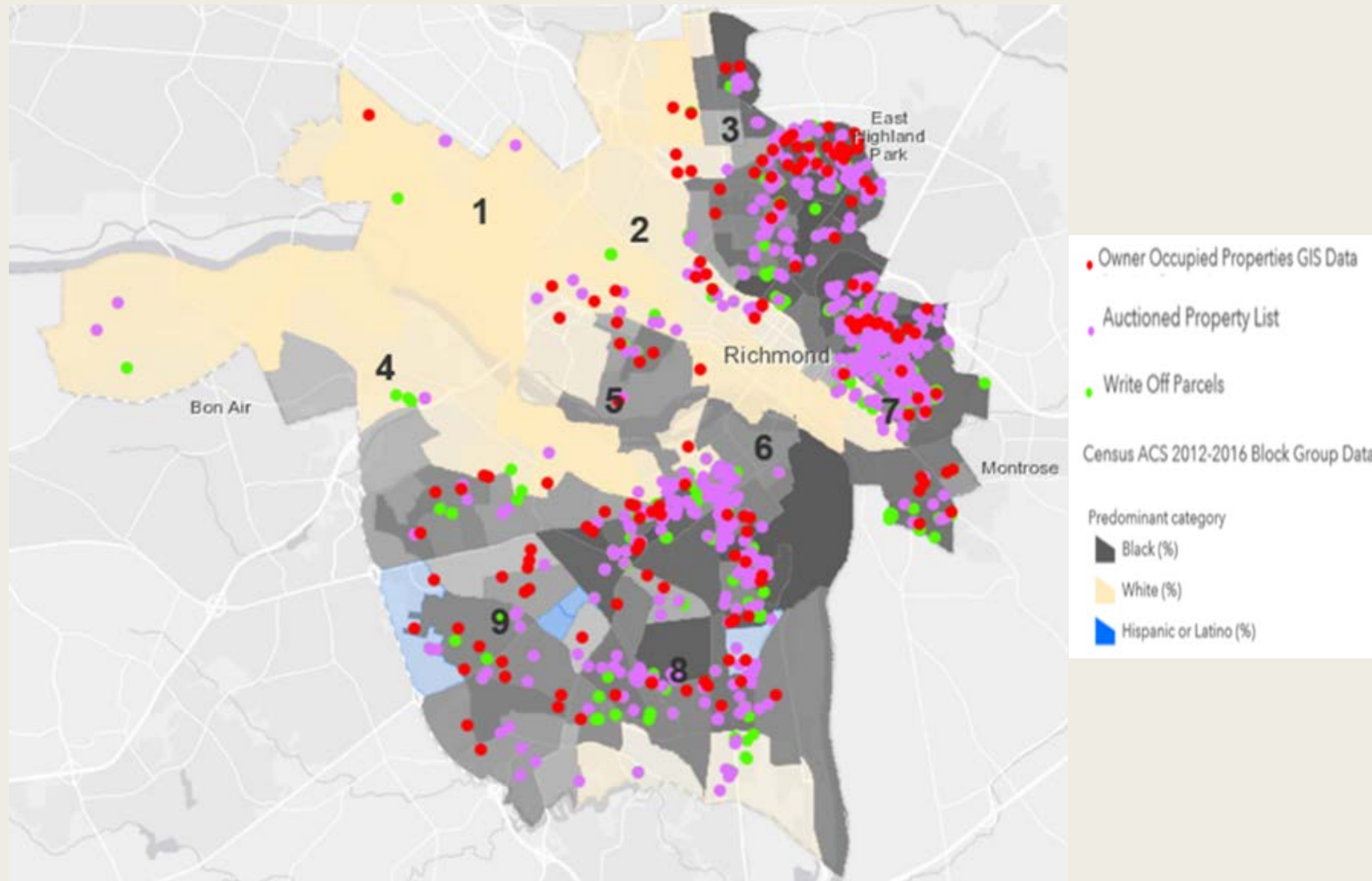
- The cost benefit of the Tax Sale Program: auditors reviewed cost of collections, associated fees, revenues collected, unclaimed revenues and usage of revenues for the Tax Sale Program for FY2015-FY2020. Overall, expenses to the City have decreased while the number of cases and revenues have increased.
- The City Attorney's Office Tax Sale Program Administration: auditors tested the Tax Sale process and noted the processes performed by the City Attorney's Office were in compliance with State and City regulations, as well as City policies.



Needs Improvement

Tax Sale Program Disparities:

- The Auditors reviewed the process of placing properties in the Tax Sale Program and noted a disparity in the way the City auctions properties:
 - *The City does not auction properties that are deemed owner-occupied, however auctions properties that are non-owner occupied.*
 - *The City has an unwritten policy to exclude owner-occupied properties from the Tax Sale Program.*
 - *As of September 23, 2020, the City Attorney’s Office had identified 150 properties that were deemed owner-occupied. The delinquent balance for these properties totaled approximately \$2.2M.*



Needs Improvement (continued)

Unbuildable Property Designation & Collections:

- On occasion, unbuildable properties are unknowingly auctioned in the Tax Sale Program.
 - Therefore, the City sells properties at auctions that are advertised as buildable; however due to other contributing factors, such as drainage easements are not buildable.
 - As of September 23, 2020, the City had 263 delinquent “unbuildable” properties with a delinquent balance that totaled approximately \$1.5M.

Payment Plan Administration:

- The Auditors noted taxpayers did not take advantage of payment plans during Tax Year 2019. Only three out of 123 delinquent accounts reviewed entered into a payment arrangement.
 - Department of Finance’s Policy & Procedures differ from practice; Finance staff require a minimum of \$3,000 to enter into a payment arrangement, Policy does not specify a minimum amount.

- Department of Finance’s Policy & Procedures for payment arrangements are more stringent than the State. The State allows for payments to be made over a 36 month period, while City only allows for 12 months or up to 18 months with management approval.
- Taxpayers who enter into a payment arrangement are required to make payments in person or by mail. The City does not have a system that allows online or automated payments.

Segregation of Duties:

- The Auditors reviewed write-off procedures for delinquent real estate tax accounts and noted the procedures do not provide guidance for write-off authorizations. Write-offs were unilaterally processed by end users without supervisory approval.
 - During the period of FY2007 through FY2020, the City wrote-off 25,325 records, totaling approximately \$1.4M.

Needs Improvement (continued)

Compliance with Finance Policy:

- The Auditors reviewed 123 delinquent real estate tax accounts for the Tax Year 2019.
 - *35 of the accounts, totaling approximately \$42,822 did not exhibit any collections efforts in MUNIS.*
 - *Ten accounts were not charged the \$30 administrative fee.*
 - *15 accounts, associated with properties that had been sold in the Tax Sale Program still showed a delinquent real estate tax balance.*

Policies & Procedures:

- Two of the three departments responsible for nominating properties for the Tax Sale Program did not have formal policies and procedures to nominate properties for the Program.

Conclusion

Recommendations:

- Issued 10.
- 100% Concurrence.
- Implementation dates through March 1, 2022.

Time Spent:

- Special Request Audit
 - 675 hours (*Planned*)
 - 832 (*Actual*)

