



CITY OF RICHMOND  
CITY AUDITOR

**DATE:** February 22, 2021

**TO:** Lincoln Saunders  
Acting Chief Administrative Officer

**FROM:** Louis Lassiter *LL*  
City Auditor

**SUBJECT:** Citywide  
Delinquent Real Estate Tax Sale audit

The City Auditor's Office has completed the Citywide – Delinquent Real Estate Tax Sale audit and the final report is attached.

We would like to thank the Administration & the City Attorney's Office for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee  
The Richmond City Council  
Jeff Grey, Senior Policy Advisor to the CAO  
Haskell Brown, Interim City Attorney

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*City of*  
**RICHMOND**  
*Office of the City Auditor*

Audit Report# 2021-10  
**Delinquent Real Estate Tax Sale Audit**  
February 22, 2021



**Audit Report Staff**

Lou Lassiter, City Auditor  
Lily Hernandez, Deputy City Auditor  
Jennifer Harvell, Senior Auditor  
Leigh Ann Castro, Auditor  
Rochelle Carter, Senior Executive Assistant

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# Highlights

Audit Report to the Audit Committee, City Council, and the Administration

## Why We Did This Audit

The Office of the City Auditor conducted this special audit at the request of City Council. The overall objective for this audit was to evaluate the collection process of delinquent real estate taxes, nomination of properties for the Tax Sale Program, cost impact of the Tax Sale Program, the displacement of residents, and compliance with applicable policies and regulations.

## What We Recommend

The Chief Administrative Officer:

- Work with the City Attorney to develop and implement a formal policy to ensure the enforcement of delinquent real estate taxes is equitably applied to owner-occupied and non-owner occupied properties.
- Work with the City Attorney's Office, the Finance Director and the Planning & Development Review Director to develop a formal policy which includes a multidisciplinary team approach to evaluate properties for the Tax Sale Program:
  - Planning & Development Review for permitting purposes & identification of unbuildable properties throughout the City.
- Work with the City Attorney to devise solutions to address what to do with "Unbuildable" properties.

The Director of Finance:

- Revise the Payment Arrangement Policy to reflect payment plan durations that align with State Code or expansive beyond 12 months.

Other recommendations are included in the report.



## Delinquent Real Estate Taxes Audit

**Background** – The City Attorney's Office is charged with managing the Tax Sale Program. Prior to 2015, the majority of properties auctioned through the Tax Sale Program were due to code violations identified by the Department of Planning and Development Review (PDR). Only properties that have been delinquent for five years or more are included in the Tax Sale Program. Per Virginia State 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. As of September 23, 2020, the City sold 251 properties through this Program.

## What Works Well

### Tax Sale Program – Cost Benefit

The 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.

**Tax Sale Program Administration – City Attorney's Office** - The 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

**Finding #1 – 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 auctions properties that are non-owner occupied and forgo auctions for owner-occupied properties. As of September 23, 2020, the City Attorney's Office identified 150 properties that were deemed "owner-occupied". The delinquent balance for these properties totaled approximately **\$2.2M**. The City has an unwritten policy to exclude "owner-occupied" properties from the Tax Sale Program.

**Finding #2 – Unbuildable Property Designation & Collections** – As of September 23, 2020, the City had 263 properties on the "Unbuildable" list totaling approximately **\$1.5M**. At times, unbuildable properties are unknowingly included in the auctions as the City does not have a point of contact that can verify whether properties are buildable before they are auctioned.

**Finding #3 – Payment Plan Administration** – The Department of Finance's Policy and Procedures differed from practice for payment agreements. In order to enter into a payment agreement, Finance staff require a minimum delinquent balance of \$3,000, however, the Policy does not require a minimum amount. Also, the City's time period for a payment plan is more stringent than the State's. The State allows a payment plan up to 36 months while the City allows 12 months (*up to 18 months with management approval*).

**Finding #4 – Segregation of Duties** – The Auditors reviewed the write-off procedures for delinquent real estate accounts and noted the procedures do not provide guidance for write-off authorizations. Write-offs were unilaterally processed by end users without supervisory approval.

**Finding #5 – Compliance with Finance Policy** – The Auditors reviewed 123 delinquent real estate tax accounts for Tax Year 2019 and noted 35 accounts totaling **\$42,822**, did not exhibit any collection efforts in MUNIS. Ten accounts were not charged the \$30 administrative fee.

**Finding #6 – Policies and 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.

Management concurred with 10 of 10 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

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# ***Richmond City Auditor's Report #2021-10***

*Citywide*

*Delinquent Real Estate Tax Sale*

*February 22, 2021*

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## **BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS**

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

### **BACKGROUND**

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#### **Overview**

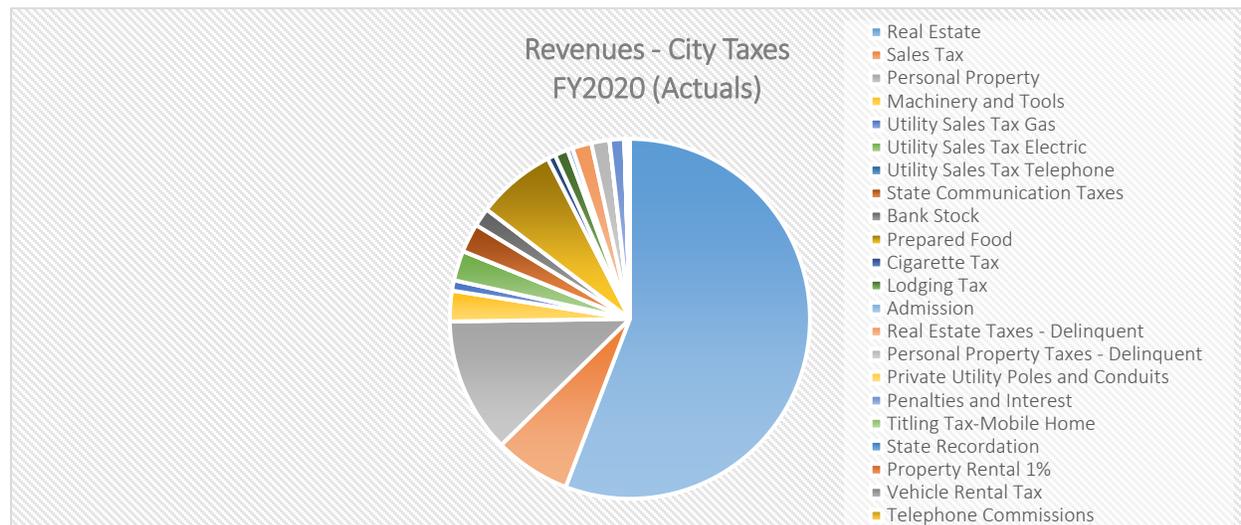
Real estate taxes apply to land, building, and building improvements that are permanently attached to the land or building. Assessments for semi-annual real estate billings are based on an effective valuation date of January 1<sup>st</sup>. The City bills real estate taxes twice a year, which are due on or before January 14<sup>th</sup> and June 14<sup>th</sup>. Since 2008, the City's real estate tax rate has been \$1.20 per \$100 of the assessed value of the property. Real estate taxes become delinquent the day after the due date. The real estate tax levies support over half of the City's tax revenues as denoted in the following graph:

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Source: FY2020 CAFR

The following table depicts the City's real estate tax levies and collections from FY2000 through FY2019:

City of Richmond Real Estate Tax Levies and Collections (FY2000-FY2019)					
Year	Tax Rate	Total Tax Levy	Tax Collections		Delinquent
			Amount Collected	Percentage of Levy	Tax Collections
2000	1.430	\$136,171,412	\$131,041,226	96.2%	\$7,940,112
2001	1.410	\$147,235,718	\$139,820,593	95.0%	\$4,336,433
2002	1.390	\$162,359,912	\$153,719,867	94.7%	\$5,221,188
2003	1.380	\$175,100,400	\$165,330,253	94.4%	\$9,498,935
2004	1.380	\$184,806,582	\$179,024,489	96.9%	\$7,715,852
2005	1.330	\$201,274,826	\$191,839,265	95.3%	\$7,619,922
2006	1.290	\$214,819,901	\$206,416,778	96.1%	\$6,901,572
2007	1.230	\$224,815,976	\$218,210,831	97.1%	\$5,696,407
2008	1.200	\$233,179,816	\$221,199,403	94.9%	\$15,227,545
2009	1.200	\$236,538,376	\$223,155,601	94.3%	\$6,001,432
2010	1.200	\$234,474,521	\$222,858,692	95.0%	\$9,711,902
2011	1.200	\$234,035,458	\$222,720,502	95.2%	\$10,742,828
2012	1.200	\$227,351,927	\$213,930,311	94.1%	\$8,196,450
2013	1.200	\$224,663,796	\$207,677,432	92.4%	\$9,296,883
2014	1.200	\$217,520,214	\$202,460,782	93.1%	\$12,381,260
2015	1.200	\$225,091,868	\$210,309,436	93.4%	\$10,412,879
2016	1.200	\$233,675,912	\$220,474,082	94.4%	\$9,702,731
2017	1.200	\$246,301,342	\$234,294,879	95.1%	\$8,937,806
2018	1.200	\$255,951,747	\$245,246,847	95.8%	\$14,295,349
2019	1.200	\$276,074,812	\$268,901,538	97.4%	\$12,889,862

Source: City CAFRs

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The City offers several tax relief options which are posted on the Department of Finance's webpage:

- *Tax Relief for the Elderly & Disabled Program* – citizens who participate in the Program can have their annual real estate tax bills reduced from 25% to 100%, depending on their household income. The qualifications for the Program are as follows:
  - 65 years or older or disabled
  - Own and live in their dwelling
  - Earn less than \$60,000 annually
  - Have less than \$350,000 in assets
- *Extreme Financial Hardship* – taxpayer must have experienced extreme financial hardship in the immediate past year or be actively experiencing an extreme hardship in the current tax year.
- *Real Estate Tax Escrow Program* – enables the taxpayer to make periodic voluntary payments to be applied to the real estate tax bill. Payments submitted through this Program earn interest and the total payments plus interest are applied to the real estate tax bill.

Additionally, some short term special tax relief programs were recently implemented due to the Coronavirus pandemic.

### ***Real Estate Taxes Collection Process***

Pursuant to Virginia Code §58.1-3919, prior to taking collection action, the governing body must “call” upon the taxpayer. The preferred method of “calling” upon the taxpayer before instituting collection action is by means of a delinquent tax notice mailed to the taxpayer, using the last known address. Every quarter, Finance staff compile a delinquent real estate tax list from the City's revenue system (MUNIS). The list excludes account balances that have been outsourced to the City's contracted collection firm. A Finance staff mails a collection letter to property owners that have a delinquent tax balance. The collection letter includes the amount due and the tax year(s) owed. The property owner is given 15 days to respond before additional action is taken.

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City Code §26-361 authorizes a 10% one-time penalty for each delinquent tax year balance and annual interest charges of 10%. Additionally, the City assesses a \$30 administrative fee to delinquent accounts that are mailed a second delinquent notice. Special assessments for sidewalk and alley paving, boarding, demolition of unsafe structures, weed and refuse lot clearance, if not paid during the current year, are added to the real estate tax bill for the upcoming year and become a lien on the property.

Section 4.17 of the Charter of the City of Richmond empowers the City Attorney to appoint special council to assist in legal services to be rendered to the City. . Additionally, VA Code §58.1-3934, states that the governing body may appoint or hire one or more attorneys to collect local taxes or other charges which may have been delinquent for six months or more. Finance staff send delinquent accounts to the outsourced collection firm to pursue collection at the beginning of the calendar year following non-payment of the 2nd half of the taxes due on June 14th. The outsourced collection firm may initiate any of the following actions to collect the delinquent taxes:

- *Administrative Summons* – they interview the taxpayer to pursue collection;
- *Civil Suit* – case is heard in General District & Circuit Court to render a judgement;
- *Judgement Lien* – debt amount is placed on the real estate owned by the taxpayer within the state of Virginia to pay taxes if the property is sold; or
- *Property Seizure* – they have the ability to take possession of the levied property and sell it if no arrangements are made.

The outsourced collection firm charges a 20% collection fee in addition to the balance due to the City.

Prior to 2015, delinquent real estate tax collections were driven by liens and collection efforts applied by the outsourced collection firm. In the event that these processes failed to remedy delinquent real estate tax balances, account balances 20 years and older were written off. VA Code §58.1-3940 states that real property taxes are enforceable for 20 years after December 31 of the year for which such taxes were assessed. From FY2007 through FY2020, the City wrote off

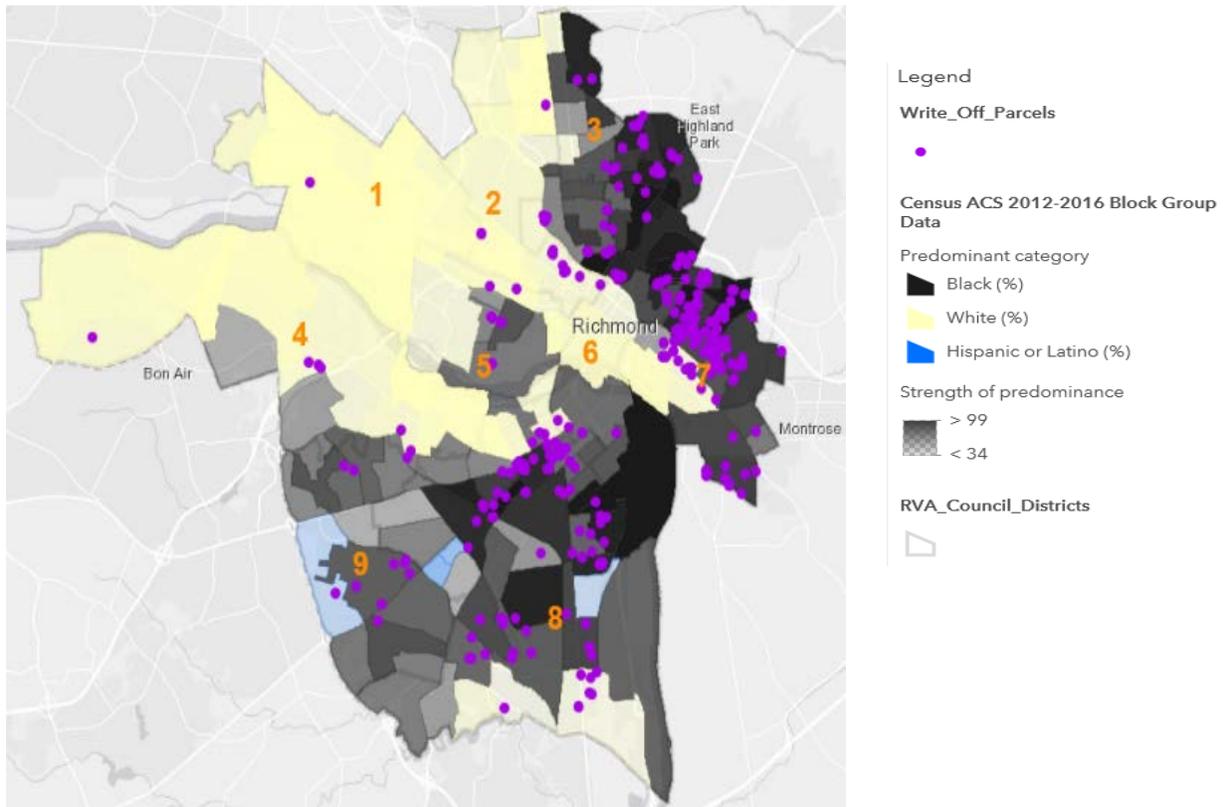
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delinquent real estate taxes totaling \$1,451,744. This includes \$451,396, which were written off for FY2015 through FY2020. The following map depicts the FY2015 through FY2020 write-offs showing census tract ethnicity and Council District:



Source:Prepared by auditor

## **Tax Sale Program**

The City Attorney's Office is charged with managing the Tax Sale Program. Prior to 2015, the majority of properties auctioned through the Tax Sale Program were due to code violations identified by the Department of Planning and Development Review (PDR). Per Virginia State 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 per applicable definitions in statutes.

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Presently, a property may be nominated for the Tax Sale Program as follows:

- The Finance Department submits a list of all accounts that are delinquent for five years or more to the City Attorney's Office;
- PDR may submit properties due to building code violations; and
- The Department of Economic Development (DED) may submit vacant and tax delinquent properties that may be around development projects or may bundle blocks of delinquent properties.

Once the City Attorney's Office receives nominations for the Tax Sale Program, the properties are reviewed for suitability for sale and added to one of three lists:

- Suitable for auction
- Do not Build
- Owner-Occupied

Once a property is determined to be suitable for auction, the following actions are taken by the City Attorney's Office:

- *Notice of Intent Letter* - a letter is sent to the owner as appearing in the City Assessor's records which informs the owner of the City's intent to initiate legal action pursuant to Virginia Code §58.1-3965, which could include auction or other transfer of the property.
- *Notice of Intent Publication* - intent is published in the Richmond Free Press and the Richmond Times Dispatch. Owners are given 30 days from the date of the notice.
- *Research and Order Title Reports* – documentation outlining the legal status of a property and related information on its ownership. Title reports include the full legal description of the property, chain of ownership, unreleased or open mortgages, and judgement docket against prior or current owners.
- *Draft and File Complaint in Court* – the initiation of civil action in the court system. Pursuant to Virginia Code §58.1-3340 places a lien on the property for payment of the taxes assessed.

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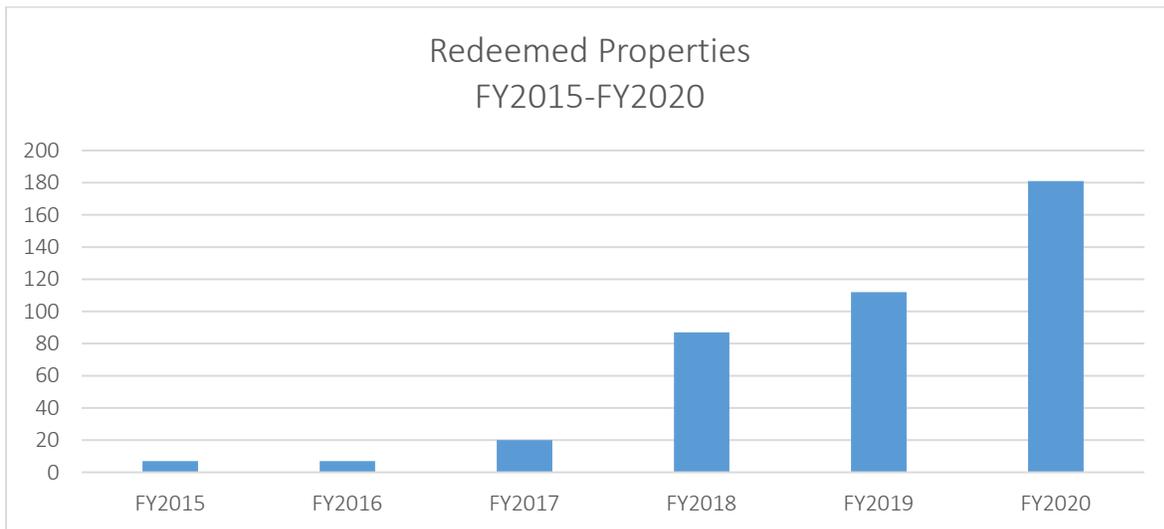
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- *Order of Publication & Guardian ad litem (GAL) Unknown Parties* – the order of publication provides an abbreviated style of the suit, outlines the object and requirement of the defendants or unknown parties to appear and protect their interests on or before the date stated in the order. In the event that the parties are unknown and/or cannot be located, a GAL may be appointed by the court.
- *Order of Sale* - also known as the decree of sale, is an order provided by the court. In order to obtain an order of sale, a motion must have been filed for the order of the sale prior to the order of sale court date.
- *Auction* – auction or judicial sale of the property. This includes transfers to nonprofits or direct sales.
- *Order of Confirmation* – order of confirmation identifies the new owners of the property and clears any liens and taxes through the date of the hearing.

### Property Redemption

Properties can be redeemed by the owner at any time before the date of sale by paying all accumulated taxes, penalties, attorney's fees, interest and other costs in full. Partial payment is not sufficient to redeem the property. The following chart depicts the number of properties redeemed from FY2015 through FY2020:



Source: Prepared by Audit from data obtained from City Attorney's Office.

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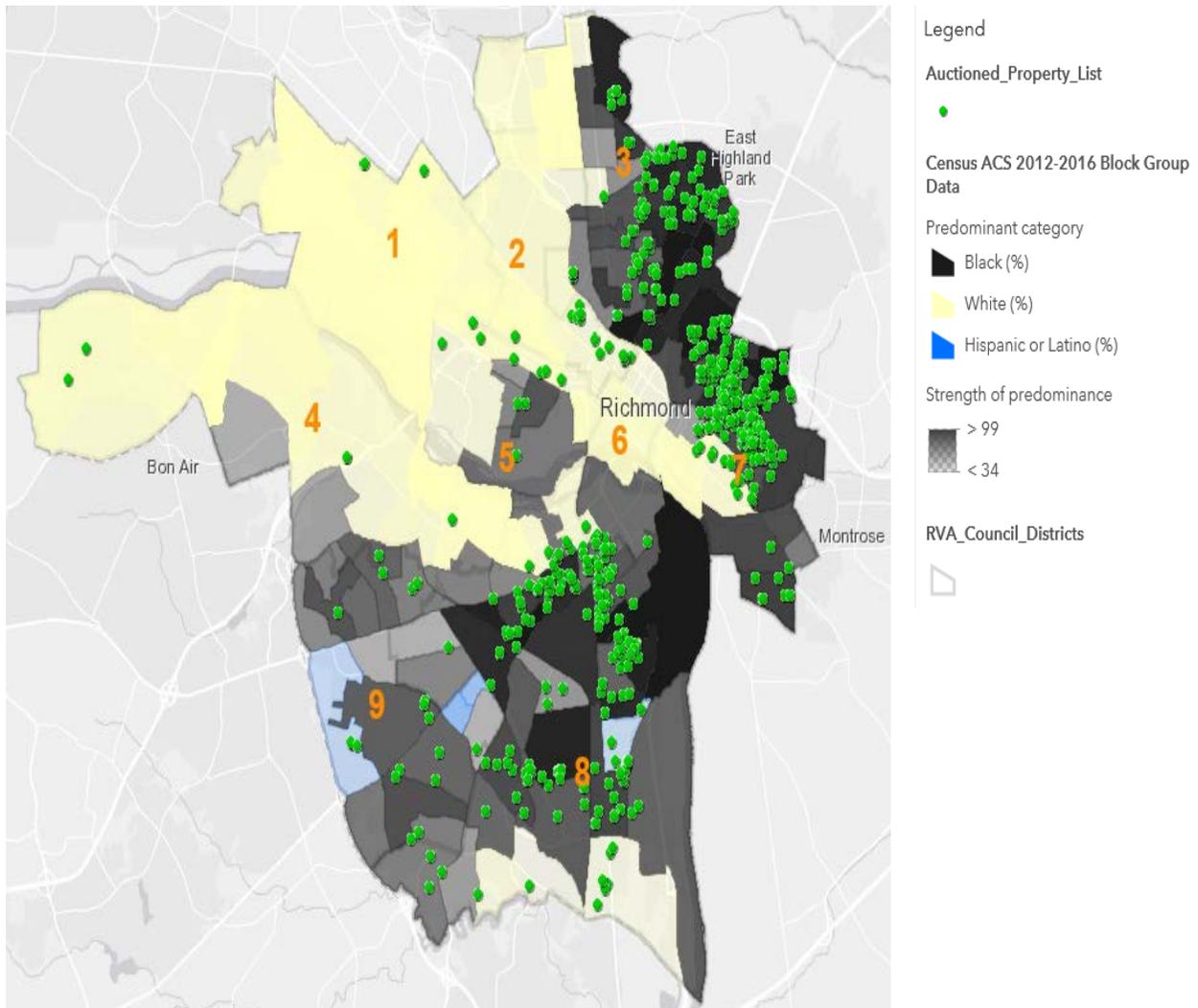
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## Auction Process

The City holds periodic auctions of delinquent real estate tax properties. The City uses an auction services contractor. The contractor provides the location for the auctions, marketing of the properties and performance of the auctions. During the auctions the contractor prepares sale contracts and collects down payments. The vendor requires down payments of 20% of the final price or \$5,000, whichever is greater. The final price includes a 10% buyer's premium, payable to the contractor for their services. The following map depicts properties that were auctioned from FY2015 through FY2020 by Census tract ethnicity and Council District:



Source: Prepared by auditor

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### Proceeds

Funds received from the Tax Sale Program are deposited in the City's General Fund and are distributed in the following priority:

- Richmond City Attorney's Office for the fees and costs paid to third parties pertaining to each specific case.
- Taxes and other liens owed to the City, which include utilities. Utilities owed to the City have the same priority as liens for unpaid taxes.
- Secured creditors.
- Unsecured creditors.

Remaining funds are paid to the owners or heirs. If a party cannot be located or has failed to file an answer to the complaint filed in the Richmond Circuit Court, funds are paid into the registry of the court. Pursuant to VA Code §58.1-3967, funds that remain unclaimed for two years are paid to the City. These funds are recorded in the Tax Sale Program Special Revenue Fund.

Historically, the Tax Sale Program Special Revenue Fund has been in deficit. This deficit was the result of delinquent real estate tax properties that were in litigation and pulled back to collection, therefore auction or redemption processes did not occur, yielding expenses that were never recovered. However, due to changes of the Tax Sale Program, the fund balance has increased.

As of FY2020, the Tax Sale Special Revenue Fund had a balance **\$1,779,281**. The following graph represents the Tax Sale Program Special Revenue Fund Balances from FY2014 through FY2020.

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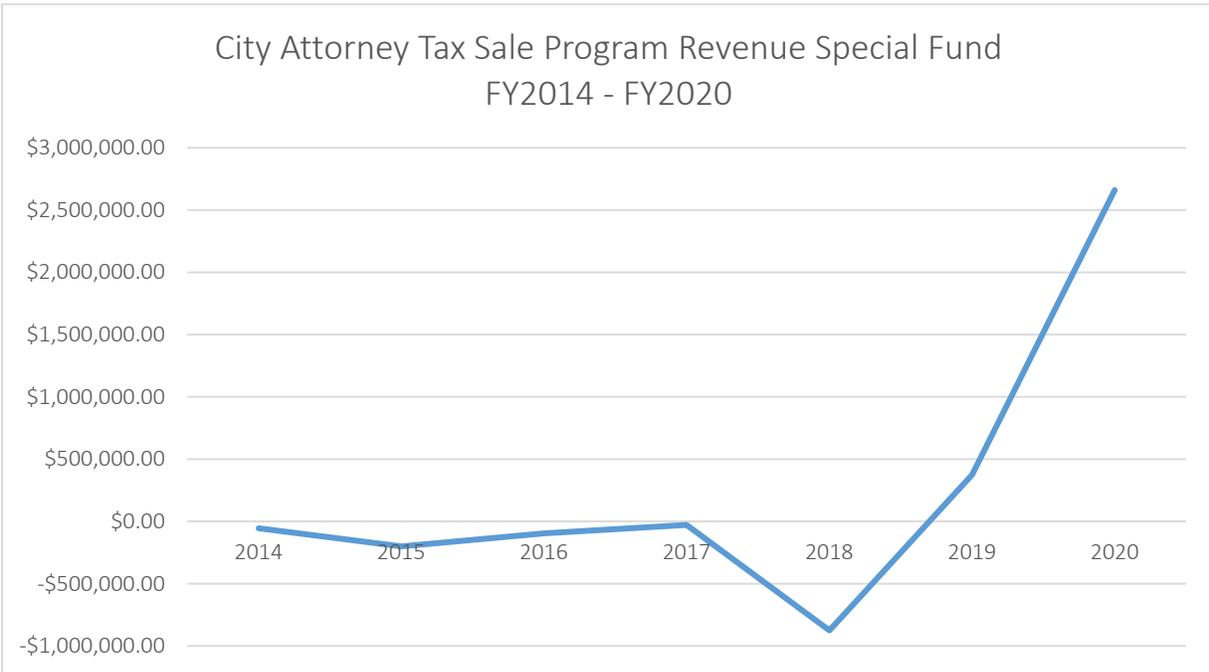
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Source: Data obtained from RAPIDS.

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**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:

- o Number and locations of properties by year and number of years they were delinquent.
- o Racial or locational disparities as a result of the Tax Sale Program.
- o Cost of collections and fees/revenues collected and uses.
- o Property taxes that were written off without entering the Tax Sale Program.

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**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 20 years, ending December 31, 2019 and the current environment, as data was available.

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## **METHODOLOGY**

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The Auditors performed the following procedures to complete this audit:

- Interviewed staff;
- Performed walkthroughs with the Finance Department and the City Attorney's Office to gain an understanding of the delinquent real estate tax sales process;
- Reviewed collection processes, history, trends and criteria;
- Obtained demographic information for the City of Richmond
- Reviewed collection efforts to ensure compliance with State and City regulations and policies;
- Examined tax write-off procedures for equitable application of delinquent real estate tax write-offs;
- Reviewed cost of collections, associated fees, revenues collected, unclaimed revenue and usage of revenues for cost impact to the City;
- Examined displacement of residents of properties that had delinquent real estate tax balances; and
- Performed other tests, as deemed necessary.

## **MANAGEMENT RESPONSIBILITY**

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City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## **INTERNAL CONTROLS**

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for

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measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the Auditors concluded the internal controls over the delinquent real estate tax sales process were properly designed to ensure compliance with State and City regulations. However, improvements are needed as follows:

- Lack of departmental policies for tax sale property nomination;
- Collection effort application for all delinquent real estate tax accounts;
- Compliance with City policies;
- Segregation of duties for end-to-end processing;
- Equitable placement of all delinquent real estate tax properties in the Tax Sale Program; and
- Full utilization of available City resources for Tax Sale Program effectiveness.

These observations are discussed throughout this report.

## **FINDINGS and RECOMMENDATIONS**

### **What Works Well**

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#### **Tax Sale Program – Cost Benefit**

The Auditors reviewed cost of collections, associated fees, revenues collected, unclaimed revenues and usage of revenues for the Tax Sale Program from FY2015 to FY2020. Overall, expenses to the City have decreased during this time period, while the number of cases managed and revenues have increased.

#### **Tax Sale Program Administration – City Attorney's Office**

The Auditors reviewed the processes used by the City Attorney's Office as they relate to administration of the Tax Sale Program to ensure real estate tax procedures complied with State

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and City regulations as well as City policy. The City Attorney's Office developed a Tax Sale Program Policy that correlates with guidance provided by VA Code §58.1-3965. Their process is in compliance with State and City regulations as well as City policy.

## What Needs Improvement

### Finding #1 – Tax Sale Program Disparities

**Condition:** The City Attorney's Office reviews properties that are delinquent for five years or more to determine if they are eligible for the Tax Sale Program. As of September 23, 2020, the City Attorney's Office categorized the five years or more delinquent properties as follows:

Property Status as Determined by the City Attorney's Office September 23, 2020	
Not Delinquent – a payment has been submitted, however the account continues to carry a delinquent amount due.	25
Outsourced Collections – account is maintained by outsourced collections firm.	4
Other – access road, financial placeholder on the report, no longer exist or conflict.	24
Bankruptcy – owner has filed for Chapter 7 or Chapter 13.	41
Tax Exempt – meets tax exempt criteria.	3
Owned by the State – City Assessor records indicate owned by the State, however these properties are located within and around the James River.	12
TACS- 2018 the City opted to use an outside legal firm to assist in the Tax Sale Program.	40
<b>Owner Occupied – deemed "owner-occupied" by the City Attorney's Office criteria.</b>	<b>150</b>
Unbuildable – property which does not meet the minimum requirements to receive a permit.	263
In Tax Sale Program – actively in the Tax Sale Program.	499
Tax Sale Complete – these properties have already gone through Tax Sale.	251
Owned by the City – City Assessor records indicate owned by the City.	1
Internal Collections – collections are worked through the City collections efforts.	2
Owned by RRHA – Richmond Redevelopment & Housing Authority	1
<b>Total</b>	<b>1,316</b>

Source: Information obtained from the City Attorney's Office.

The collection of delinquent real estate tax balances for owner-occupied properties is managed by an outsourced collection firm. Uncollected balances for each account are written off upon reaching 20 years or more. The auditors noted during the period of FY2007 through FY2020, the City wrote off delinquent real estate taxes of **\$22,591** for five owner-occupied properties.

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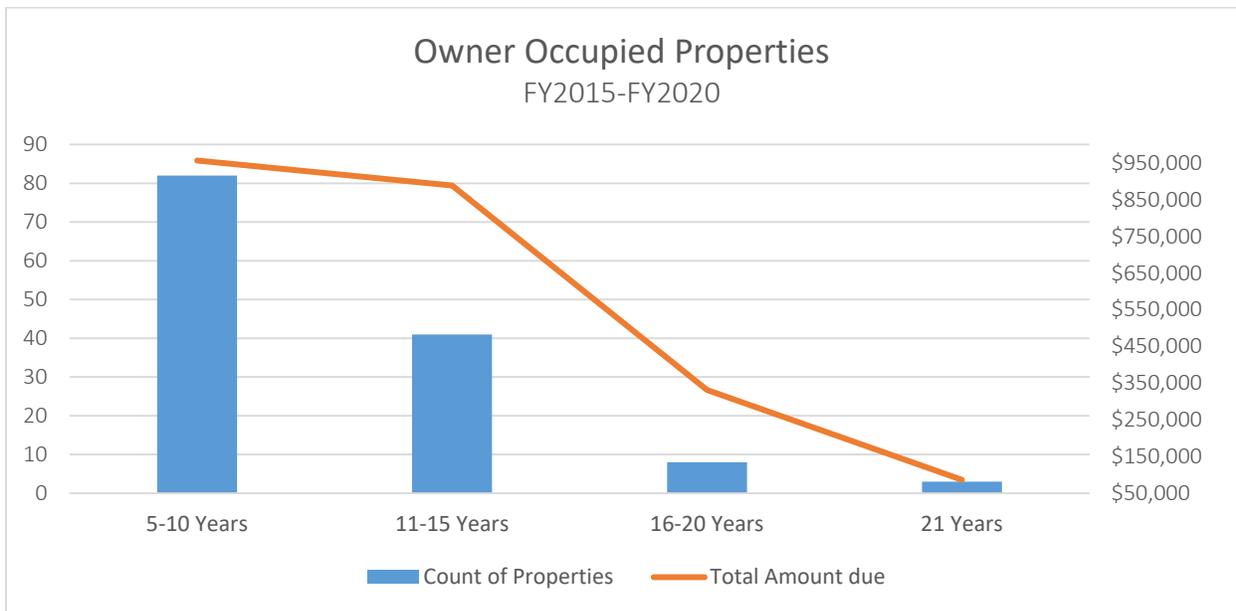
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The auditors reviewed the process of placing properties in the Tax Sale Program and noted a disparity in the way the City auctions properties. The City auctions properties that are non-owner occupied and forgo auctioning owner occupied properties.

As of September 23, 2020, the City had 134 owner-occupied properties that were delinquent for five years or more. The amount due for these properties totaled **\$2,263,413**. This amount excludes 16 properties due to the owner filing for bankruptcy, outsourced to the collection agency or had a payment plan. Approximately, **61%** of these properties were 5 to 10 years delinquent. The following graph outlines the owner-occupied properties' delinquency range and total amount due:



Source: Auditor Prepared

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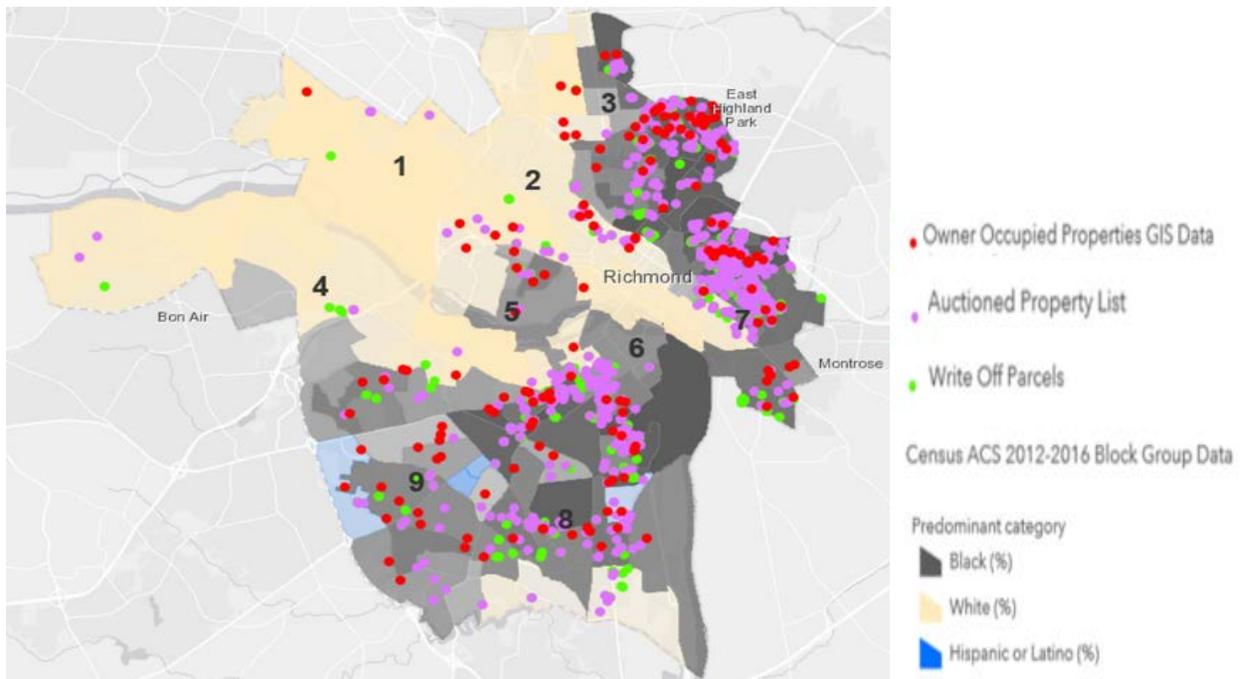
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The following map shows the delinquent owner-occupied properties, properties with associated write-offs and auctioned properties by Council District and ethnicity:



Source: Auditor Prepared

This data indicates a high correlation between properties written off, auctioned and delinquent owner occupied properties within certain areas of the City.

**Criteria:** The City Attorney's Office uses the following criteria to determine if a property is owner-occupied and therefore excluded from the Tax Sale Program.

- The property is residential;
- The most recently recorded deed transferred the property at arm's length transaction (between unrelated parties – the deed cannot be a gift of deed or due to death);
- The grantees are natural persons;
- At least one grantee is alive;
- At least one grantee lists the property as their primary residence; and
- Active utility records with the Department of Public Utilities (utilities services have not been terminated).

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**Cause:** The City has an unwritten policy in which they exclude “owner-occupied” properties from the Tax Sale Program.

**Effect:** The disparity between owner occupied and non-owner occupied properties could create a negative perception of City procedures, hence decrease trust. Additionally, the City suffers financial loss due to uncollectable real estate taxes.

### **Recommendation:**

- 1. We recommend the Chief Administrative Officer work with the City Attorney to develop and implement a formal policy to ensure the enforcement of delinquent real estate taxes is equitably applied to owner-occupied and non-owner occupied properties.*

### ***Finding #2 – Unbuildable Properties Designation & Collections***

**Condition:** On a quarterly basis, the Finance Department submits a listing of real estate properties that are delinquent for five year or more to the City Attorney’s Office for the Tax Sale Program. The City Attorney’s Office categorizes the listing to determine which properties are suitable for participation in the Tax Sale Program. If the property does not meet the minimum requirements to obtain a permit it is categorized as “Unbuildable”.

Unbuildable properties are sometimes unknowingly included in the auctions. The City sells properties at the auctions that are advertised as buildable; however, due to some contributing factors, such as drainage easements, are not buildable.

The collection of delinquent real estate taxes for “Unbuildable” properties is outsourced to a third party firm. Those properties are excluded from the Tax Sale Program. As of September 23, 2020, the City had 263 delinquent “Unbuildable” properties totaling **\$1.5M**.

**Criteria:** The City Attorney’s Office categorizes a property as “Unbuildable” if a building permit cannot be issued based on the following:

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- The size of the property is too small;
- The property is landlocked (*does not have access to a road*); or
- The property is located on a paper street (*meaning that the street exists on paper, but not actually built yet*).

**Cause:** The City does not have a formal policy delineating roles and responsibilities for determining whether a property is buildable. The City does not have a point of contact in PDR that can verify whether properties are buildable before they are advertised for auction.

**Effect:** The City can become liable for falsely advertising a property as buildable. Also customers become frustrated when they find out the property purchased cannot be used for their intended purpose.

### **Recommendations:**

2. *We recommend the Chief Administrative Officer work with the City Attorney's Office, the Finance Director, and the Planning & Development Review Director to develop a formal policy which includes a multidisciplinary team approach to evaluate properties for the Tax Sale Program:*
  - *Planning & Development Review for permitting purposes and identification of "Unbuildable" properties throughout the City.*
3. *We recommend the Chief Administrative Officer work with the City Attorney to devise solutions to address what to do with unbuildable properties.*

### ***Finding #3 – Payment Plan Administration***

**Condition:** Taxpayers who are delinquent on their real estate taxes and cannot pay their balance in full may enter into a payment agreement with the Department of Finance. Taxpayers who enter into a payment agreement are required to make payments in person or by mail. The City does not have a system that allows online or automated payments.

The Department of Finance's Policy and Procedures differed from practice for payment agreements. In order to enter into a payment agreement, Finance staff require a minimum

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delinquent real estate tax balance of \$3,000, however the Policy does not require or specify a minimum amount.

Finance's Policy and Procedures for payment agreements is more stringent than the State's requirements. The State allows a taxpayer to enter into a payment agreement over a period not to exceed 36 months while the City only allows 12 months (*up to 18 months with management approval*).

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.

**Criteria:** The Department of Finance's Policy and Procedures for Payment Arrangement does not specify a minimum amount due to enter into a payment agreement.

According to Virginia Code §58.1-3965, a taxpayer may request to enter into a payment agreement "to permit the payment of delinquent taxes, interest and penalties over a period not to exceed 36 months".

**Cause:** City staff stated that payment plans have always been administered for 12 months. The system in place does not have automation capabilities, therefore administration of payment plans is a manual process and time consuming. There is only one staff member in the Delinquent Collections Unit dedicated to the collection of delinquent real estate taxes.

Finance management acknowledged that payment plan administration is a challenge. The City is actively engaged in the procurement of a revenue system that will allow for payment automation and submission of payments online.

**Effect:** A more stringent payment plan may discourage taxpayers from entering into such agreement. Additionally, the manual administration of payment plans is ineffective.

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## Recommendations:

4. *We recommend the Director of Finance revise the Payment Arrangement Policy to provide guidance for payment arrangement thresholds.*
5. *We recommend the Director of Finance revise the Department of Finance Payment Arrangement Policy to reflect payment plan durations that align with VA Code § 58.1-3965 or expansive beyond 12 months.*

## Finding #4 – Segregation of Duties

**Condition:** The write-off procedures for delinquent real estate accounts do not provide guidance for write-off authorizations as write-offs were initiated and processed by the same individuals. Additionally, the procedures do not address write-offs that are outside the statute of limitations. During the period of FY2007 through FY2020, the City wrote-off 25,325 records, totaling **\$1,451,744**.

Multiple users in various units within the Finance Department have write-off capabilities in MUNIS. Employees who collect funds can also write off accounts. The following table depicts write-off activities by total amount and transaction count from January 2020 through October 2020:

January 2020 through October 2020			
UNIT	Amount Ranges	Total Amount	Transaction Count
Collections/Accounting	\$0.01 to \$20.00	\$ 80.80	90
	(\$5.01) and less	\$ (1,132.06)	5
Delinquent Tax Collections	\$0.01 to \$20.00	\$ 14.97	1
	\$20.00 and above	\$ 38,526.07	159
Finance	\$0.01 to \$20.00	\$ 7.69	10
Real Estate	\$0.01 to \$20.00	\$ 170.98	171
	(\$0.01) to (\$5.00)	\$ (0.29)	29
	(\$5.01) and less	\$ (72.77)	66
<b>Total</b>		<b>\$ 37,595.39</b>	<b>531</b>

Source: Prepared by Auditor from MUNIS data

**Criteria:** Segregation of duties is a key concept for effective internal controls. Internal controls include oversight and review to reduce errors and to prevent fraud. According to the Government

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Finance Officers Association (GFOA), governments should establish a revenue policy and review it on an annual basis. One of the factors to be considered is the segregation of duties, such as initiation and authorization of transactions.

**Cause:** There has been turnover in management positions over the last four years. High turnover and changing chain of command have contributed to lack of oversight and process review in the delinquent tax write off procedures.

**Effect:** Employees are placed in a position to unilaterally process write-offs without supervisory oversight, which increases the possibility of fraud.

### **Recommendation:**

- 6. We recommend the Director of Finance update their Policies and Procedures to ensure the procedures require supervisory review for write-offs and provide guidance for out of statute tax write-offs.*

### ***Finding #5 – Compliance with Finance Policy***

**Condition:** The Auditors reviewed 123 of 2,475 delinquent real estate accounts for Tax Year 2019 to verify compliance with City Policy and noted the following:

- o 35 accounts did not exhibit any collection efforts in MUNIS. These accounts totaled **\$42,823** of uncollected real estate taxes (it included three unbuildable and one owner-occupied accounts); and
- o 10 accounts were not charged the administrative fee of \$30.

The auditors also reviewed the 251 properties sold through the Tax Sale Program as of September 23, 2020, noting whether the accounts had been cleared of the delinquencies in MUNIS. Fifteen of the properties sold still showed a delinquent balance.

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**Criteria:** According to the Department of Finance Tax Sale Standard Operating Procedures, “the Department of Finance, Revenue Administration will make adjustments to all real estate tax bills for properties sold via the tax sale (delinquent) auction.”

According to City Code §26-332, Payment of administrative costs, “Fees shall be imposed upon each person chargeable with delinquent taxes or other delinquent charges to cover the administrative costs and reasonable attorney's or collection agency's fees actually contracted for.... The administrative costs shall be in addition to all penalties and interest and shall not exceed \$30.00 for taxes or other charges collected subsequent to 30 or more days after notice of delinquent taxes....”

**Cause:** The City uses MUNIS, which is not a true collections system. As a result many processes are manually driven and historical data is not captured. Applicable fees are added in mass during the billing process. However, supplemental billings are not mailed in mass and must be keyed manually. Finance management did not have a quality assurance process to ensure:

- o All applicable accounts were assessed the administrative fee.
- o Delinquencies were removed from the properties sold via the Tax Sale Program.

The City recognizes some of the MUNIS limitations and it's currently working to replace it with a new Revenue Administration System (RAS) within the RAPIDS system.

**Effect:** New property owners may become frustrated and dissatisfied when they cannot obtain building permits since their accounts are flagged as delinquent. This also causes inefficiencies as staff must assist customers to clear their accounts.

Also, the City missed assessing and collecting revenues for 10 accounts as well as outsourcing collection efforts for 35 accounts.

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### **Recommendations:**

- 7. We recommend the Director of Finance develop and implement quality assurance procedures to ensure administrative fees are applied consistently and properties sold via the Tax Sale Program are closed out according to Finance Policy.*
  
- 8. We recommend the Director of Finance work with the Revenue Administration System to RAPIDS implementation team so that it includes a true collections system with capabilities of maintaining historical real estate account activity.*

### ***Finding #6 – Policies and Procedures***

**Condition:** The City Attorney's Office is charged with the administration and management of the Tax Sale Program. Three departments can nominate properties for the Tax Sale Program as follows:

- Finance
- PDR
- DED

Each department nominates properties for the Tax Sale Program based on their mission.

PDR as well as DED did not have formal Standard Operating Procedures for nominating properties to the Tax Sale Program. PDR is in the process of developing a policy.

**Criteria:** Written policies and procedures provide guidance to staff to perform their duties consistently in conformance with policies.

**Cause:** Management did not prioritize in developing standard operating procedures for their roles and responsibilities in nominating properties to the Tax Sale Program.

**Effect:** Without guidance, staff may perform tasks inconsistently and not in accordance to management's expectations.

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**Recommendations:**

- 9. We recommend the Director of Economic Development develop and implement Standard Operating Procedures for nominating properties to the Tax Sale Program.*
  
- 10. We recommend the Director of Planning and Development Review finalize and implement Standard Operating Procedures for nominating properties to the Tax Sale Program.*

**APPENDIX B: MANAGEMENT RESPONSE FORM**  
**2021-10 Citywide - Delinquent Real Estate Tax Sale Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend the Chief Administrative Officer work with the City Attorney to develop and implement a formal policy to ensure the enforcement of delinquent real estate taxes is equitably applied to owner-occupied and non-owner occupied properties.	Y	The Chief Administrative Officer will work with the City Attorney to develop a policy.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Chief Administrative Officer		1-Dec-21
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the Chief Administrative Officer work with the City Attorney's Office, the Finance Director, and the Planning & Development Review Director to develop a formal policy which includes a multidisciplinary team approach to evaluate properties for the Tax Sale Program: <ul style="list-style-type: none"> <li>• Planning &amp; Development Review for permitting purposes and identification of "Unbuildable" properties throughout the City.</li> </ul>	Y	The Chief Administrative Officer will work with the City Attorney to form a multidisciplinary team to develop a policy.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Chief Administrative Officer		1-Dec-21
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend the Chief Administrative Officer work with the City Attorney to devise solutions to address what to do with unbuildable properties.	Y	The Chief Administrative Officer will work with the City Attorney on solutions to address unbuildable properties.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Chief Administrative Officer		1-Mar-22
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend the Director of Finance revise the Payment Arrangement Policy to provide guidance for payment arrangement thresholds.	Y	Payment Arrangement policy will be modified and updated to reflect new thresholds, effective July 2021.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operations Manager, Treasury		July 31, 2021
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**APPENDIX B: MANAGEMENT RESPONSE FORM**  
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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	We recommend the Director of Finance revise the Department of Finance Payment Arrangement Policy to reflect payment plan durations that align with VA Code § 58.1-3965 or expansive beyond 12 months.	Y	Payment Arrangement policy will be modified and updated to reflect more expansive durations, effective July 2021.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Program and Operations Manager, Treasury		July 31, 2021
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend the Director of Finance update their Policies and Procedures to ensure the procedures require supervisory review for write-offs and provide guidance for out of statute tax write-offs.	Y	Policy and Standard Operating Procedure will be revised effective March 1, 2021 to reflect supervisory approval on out of statute tax write-offs; next write off will be January 2022.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Program and Operations Manager, Treasury		January 31, 2022
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend the Director of Finance develop and implement quality assurance procedures to ensure administrative fees are applied consistently and properties sold via the Tax Sale Program are closed out according to Finance Policy.	Y	Standard Operating Procedure and Policy are being reinforced to ensure consistent staff application according to Finance guidelines.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Program and Operations Manager, Treasury		March 1, 2021
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend the Director of Finance work with the Revenue Administration System to RAPIDS implementation team so that it includes a true collections system with capabilities of maintaining historical real estate account activity.	Y	An Oracle-based collection system, Advanced Collections, will be implemented with the RAPIDS system, and is expected to go into production in November 2021.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director Senior for Financial Systems		November 30, 2021
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**APPENDIX B: MANAGEMENT RESPONSE FORM**  
**2021-10 Citywide - Delinquent Real Estate Tax Sale Audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
9	We recommend the Director of Economic Development develop and implement Standard Operating Procedures for nominating properties to the Tax Sale Program.	Y	The Department of Economic Development will complete an SOP addressing how properties are identified and recommended to the tax sale process.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Director of Economic Development		1-Apr-21
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	We recommend the Director of Planning and Development Review finalize and implement Standard Operating Procedures for nominating properties to the Tax Sale Program.	Y	The Department of Planning and Development Review will complete an SOP addressing how PDR properties are identified and recommended to the tax sale process.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Program and Operations Manager		1-Apr-21
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>