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Property Tax Revenue Audit

April 24, 2015



**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

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The Property Tax Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to ensure that:

- properties within the city limits are included in the City of Fort Worth's property tax base; and
- property tax exemptions claimed were allowable and accurately calculated.

Audit Scope

Our audit included a review for the three-year period ended September 30, 2013.

Opportunities for Improvement

Resolve properties with questionable taxable jurisdictions

Enhanced reporting of property tax revenue, by county

Executive Summary

As part of our FY2015 Annual Audit Plan, the Department of Internal Audit conducted a Property Tax Revenue Audit. Based on our audit results, we concluded that the authorized ad valorem tax rate had been properly applied to properties within the City of Fort Worth. We also concluded that exemptions applied against taxable properties were authorized by the Mayor and City Council.

The Department of Internal Audit identified 60 properties where the jurisdiction differed between the City of Fort Worth's Graphical Information System (GIS) records and the Tarrant Appraisal District (TAD). The taxation on those properties was, therefore, questioned. For example, there were property tax accounts which, per GIS records and/or City Ordinances, were within the city of Fort Worth's jurisdiction. However, TAD's records indicated that those properties were in neighboring cities such as Benbrook, Forest Hills, and Westover Hills. In addition, we identified properties noted as being within Fort Worth per GIS records, but coded as "No City" within TAD. There were also properties that TAD coded as Fort Worth. However, the mobile homes on those properties were coded to a city other than Fort Worth.

During our review of Fort Worth properties residing in a county other than Tarrant (e.g., Johnson, Parker and Wise), we concluded that the City's Treasury Division does not receive data which would allow City staff to determine if the City of Fort Worth is properly receiving ad valorem tax revenue for those related properties.

The City's GIS Division was timely in making necessary corrections to property data questioned during this audit. In addition, after being informed of questionable properties, TAD personnel began conducting their own research and making corrections as deemed necessary.

City management has responded as to how they plan to address our audit findings and the related recommendations. We feel that management's responses adequately address the audit recommendations.

These findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.



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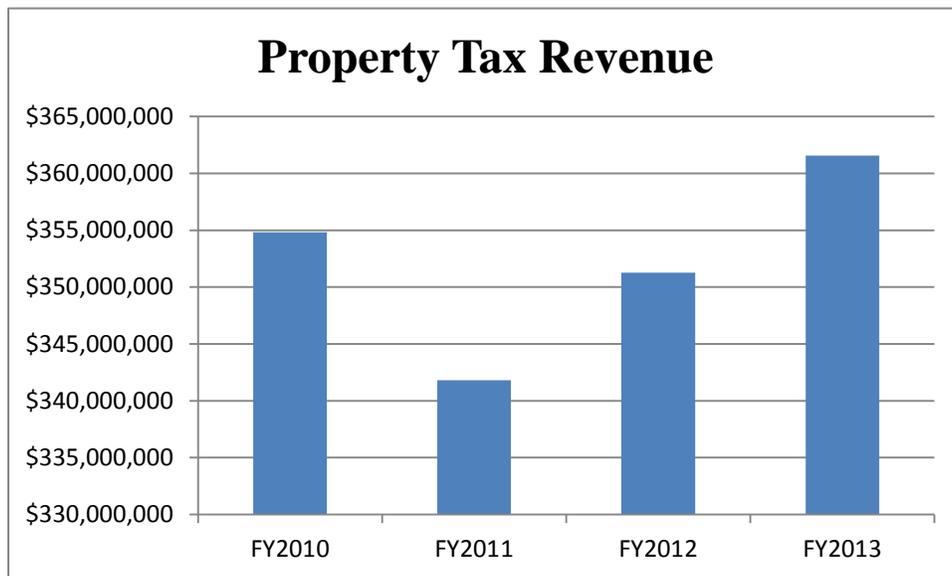
Background

The Tarrant Appraisal District (TAD) is responsible for local property tax appraisal and exemption administration for over seventy jurisdictions or taxing units in Tarrant County, including the City of Fort Worth. While property appraisals are determined by the appraisal district, the City of Fort Worth (CFW) sets its own tax rate which is applied to Fort Worth appraisals to generate property tax revenue for general use. The City of Fort Worth has maintained the City's property tax rate at \$0.8550 per \$100 net taxable valuation for over five years. The CFW allows taxable real property to be reduced by residential homestead exemptions for the disabled and elderly (over 65 years of age). There are some properties, within the CFW, that are located in neighboring Denton, Johnson, Parker and Wise counties.

As permitted by the Texas Tax Code, the CFW funds applicable county appraisal districts for property assessments. Over the three-year audit period, the City's paid approximately \$2.2 million per year for property tax appraisals services.

On June 6, 1992, the City of Fort Worth entered into an agreement with the Tarrant County Tax Assessor/Collector to collect ad valorem taxes levied by the City of Fort Worth. Under the agreement, the Tarrant County Tax Assessor/Collector's responsibility includes transmitting tax statements, payment processing, annual printed tax, delinquent and paid rolls, and monthly data processing of delinquent accounts as provided to the law firm with whom the County contracts. The City of Fort Worth pays the Tarrant County Tax Assessor/Collector a per account charge. Additionally, the City of Fort Worth pays Denton County a set quarterly amount.

The following chart depicts property tax revenue over the past four (4) years.



Source: CFW Comprehensive Annual Financial Reports



Objectives

The objectives of this audit were to ensure that properties within the city limits are included in the City of Fort Worth's property tax base and property tax exemptions claimed were allowable and accurately calculated.

Scope

Our audit included a review for the period October 1, 2010 through September 30, 2013.

During the planning stage of this audit, the Financial Management Services Department proposed to partner with an outside source to conduct an audit of existing homestead exemptions. For this reason, our audit did not include validating whether homeowners had claimed homestead exemptions on multiple properties. However, it should be noted that City management later abandoned the idea of utilizing an outside source to conduct such audits, as TAD was considered the more appropriate body to conduct homestead exemption reviews.

Our audit also did not include a review of delinquent property tax collections.

Terminology

<u>Term</u>	<u>Description</u>
GIS	Graphical Information System. A graphical representation of the entire City and surrounding areas.
CAD_CFWLand layer	Represents properties inside the CFW city limits; One layer inside GIS
CAD_Parcels layer	Represents properties inside Tarrant County; Prepared by TAD
CAD_Parcels_View layer	Represents properties inside Tarrant County with additional information; Prepared by TAD



Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- compared the city limit layer to the county boundary layer to identify counties containing CFW properties;
- reviewed Mayor & Council database to identify properties annexed by the CFW over the past three (3) years;
- compared properties within CAD_CFWLand, CAD_Parcels, and CAD_Parcels_View layers to verify annexation;
- compared properties to CFW water accounts to help verify proper jurisdiction;
- utilized GIS application and appraisal district databases to verify that properties within the annexed areas were properly coded as being within the CFW's jurisdiction;
- downloaded TAD and Denton County Appraisal data to search properties by block, etc.; identify the City jurisdiction related to annexations and to test samples of the data;
- verified proper calculation of taxable values; and,
- reviewed City Ordinances to identify authorized exemptions.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. 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.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

The Department of Internal Audit concluded that property taxes were accurately calculated at the authorized tax rate. We also noted that exemptions (homestead and over-65) granted by the Tarrant Appraisal District were authorized by the Mayor and City Council via City Ordinance. In addition to the homestead and over-65 exemptions, property owners were also granted exemptions for tangible and mineral interest that is held or used for production of income if that property has a taxable value of less than \$500. While this exemption was not noted within a City Ordinance, the exemption is allowable per Section 11 of the Texas Property Tax Code.

The Department of Internal Audit identified properties, which based on City GIS and annexation records, should have been coded as CFW properties. However, the properties were not coded as such within the County's property tax records. Instead, some of the properties were coded as being within the jurisdiction of neighboring cities. There were also instances where land was coded as being within the CFW city limits. However, mobile homes sitting on the land were not. As of the audit exit conference date (March 25, 2014), TAD had corrected 33 of the 35 mobile home properties.

The Department of Internal Audit concluded that verifying the accuracy of City limit boundaries questioned within this audit (for properties annexed prior to 1997) would benefit the City, particularly since decisions could be made to enhance/modify these properties for future use. It should be noted that since CFW GIS records do not include annexations prior to 1997, GIS records supporting annexations that occurred prior to January 1997 were not available.

The Department of Internal Audit also identified a need to strengthen the process by which property taxes received from Fort Worth property owners, residing in counties other than Tarrant, are tracked.

Overall Evaluation

High	Medium	Low
Proper coding of City of Fort Worth properties		
Tracking property tax revenue received by counties other than Tarrant		



Detailed Audit Findings

1. Some properties within the City of Fort Worth are not coded as such within Tarrant Appraisal District (TAD) property tax files.

TAD is contracted to assess property values, while Tarrant County is contracted to collect taxes on properties within the City of Fort Worth. The Department of Internal Audit identified 60 properties coded, within GIS, as being within the Fort Worth city limits. However, TAD records did not show the properties as being in the city of Fort Worth. The City of Fort Worth may, therefore, not have received property tax revenue for which it was due. It should be noted that the ordinance which would have adequately documented the annexation of these properties was dated prior to when the CFW began using GIS to record annexations.

- Forty-nine (49) of the 60 properties were coded as “No City” within TAD files. These properties had a 2014 total appraised value of \$2,265,615.
 - Thirty-five (35) of the properties, considered to be within the city of Fort Worth, are mobile homes appraised at a total of [\\$375,650](#). The properties on which the mobile homes sit are coded as City of Fort Worth. However, the mobile homes are not coded as Fort Worth.
 - Fourteen (14) properties were questioned for various reasons.
 - Three (3) of the 14 properties are owned by the “City of Fort Worth” and are noted as such by TAD. However, TAD does not have the properties coded as being within the Fort Worth city limits. These properties were assessed at [\\$27,354](#) in 2014. However, since these are City properties, the properties are not subject to property taxes.
 - The CFW city limit boundary for three (3) of the 14 properties was questioned. The properties are noted as being within the CFW per City records, but not per TAD. The 2014 assessed value for these properties totaled [\\$632,671](#). However, the government-owned property is not subject to property taxes.
 - The remaining eight (8) properties are shown by GIS to be within the CFW’s boundaries. The 2014 assessed value for these properties totaled [\\$1,229,940](#). However, the government-owned property is not subject to property taxes.
- Eight (8) of the 60 properties were coded as Forrest Hill within TAD files. These properties (all of which are on streets that border an edge of Fort Worth that is adjacent to Forrest Hill) were appraised at a total of [\\$706,216](#) in 2014. Seven (7) of the eight properties are on the same street.
- Two (2) of the 60 properties were coded as Benbrook within TAD files.
 - One of the properties, considered to be within Fort Worth by both the City of Fort Worth and the City of Benbrook, was appraised at a total of [\\$455,882](#) in 2014. The Department of Internal Audit noted that the referenced property was re-zoned by the City of Fort Worth in February 2014.



- One property, which is partially outside of the CFW boundaries, has two TAD accounts -- one assessed at [\\$20,000](#) and the other at [\\$625,195](#). TAD records indicate that the property assessed at [\\$20,000](#) is in Benbrook, while the property assessed at [\\$625,195](#) is in Tarrant County -- both accounts having the same georeferenced number. Since GIS records indicate that the property extends beyond CFW, the assessed value may not be totally applicable to the CFW. Also the [\\$625,195](#) assessment is included in the [\\$632,671](#) previously noted.
- One (1) Fort Worth property was coded as Westover Hills within TAD files. This property was assessed at a total of [\\$411,370](#) in 2014. However, since GIS records indicate that the property extends to the CFW and Westover Hills jurisdictions, the [\\$411,370](#) assessed value is not totally applicable to the CFW. Also, since the property was annexed prior to January 1997, the Department of Internal Audit was unable to locate the City ordinance supporting whether this property should have been Fort Worth, Westover Hills or partially to both.

Properties located within the CFW's jurisdiction should be taxed each year at their taxable assessed values and at the authorized rates. Not properly taxing Fort Worth property owners could result in lost revenue.

As of the end of our audit fieldwork, TAD was in the process of researching these properties to determine whether the aforementioned differences are valid and warrant any corrections within the TAD database. [Exhibit I](#) summarizes the questionable properties and the potential monetary impact on an annual basis. Property tax revenue associated with these properties would be recurring in subsequent years, based on the assessed values.

Recommendation 1A:

The Chief Financial Officer should request that TAD research the 60 properties in question, and conclude as to validity.

Auditee's Response: Concur. The Treasury Division of the Department of Finance contacted TAD on April 14, 2015 to request that the 60 properties in questions be reviewed for validity.

Target Implementation Date: Completed

Responsibility: Chief Financial Officer
Assistant Director of Finance for the Treasury Division

Recommendation 1B:

Upon TAD reaching a conclusion regarding the questionable properties, the Chief Financial Officer should partner with TAD and Tarrant County to ensure that the City of Fort Worth receives property taxes that were paid and due (but not submitted) to the City of Fort Worth in prior years, as permitted by law.

Auditee's Response: Concur. The Treasury Division of the Department of Finance will work with TAD and Tarrant County to align all impacted properties and to ensure that all monies legally due to the City of Fort Worth are appropriately collected.

Target Implementation Date: September 30, 2015 - Contingent upon the completion of the above.



Responsibility: Chief Financial Officer
Assistant Director of Finance for the Treasury Division

Recommendation 1C:

Upon TAD reaching a conclusion regarding the questionable properties, the Chief Financial Officer should partner with TAD and Tarrant County to ensure that Fort Worth property owners, not previously billed for property taxes, are billed and related property tax payments are submitted to the City of Fort Worth, as permitted by law.

Auditee's Response: Concur. The Treasury Division of the Department of Finance will work with TAD and Tarrant County to ensure that all property owners not previously billed for the City of Fort Worth property taxes are billed and that all legal payments are submitted to the City of Fort Worth.

Target Implementation Date: September 30, 2015 - Contingent upon the completion of the above.

Responsibility: Chief Financial Officer
Assistant Director of Finance for the Treasury Division

2. Property tax revenue received by Tarrant County, on behalf of overlapping districts, is not separately reported to the CFW.

Good business practices require that procedures be established to ensure proper accountability of revenue.

As noted within the [Background](#) section of this report, some properties within the CFW are located in the neighboring counties of Denton, Johnson, Parker and Wise. Tarrant County receives files from these counties in order to bill on behalf of the City of Fort Worth. Once property data has been received from other counties and loaded, tax rates are automatically calculated (by Tarrant County) to generate the tax levy. Tax payments for Fort Worth properties, regardless of residing county, are paid to and collected by Tarrant County.

While Tarrant County bills and collects on behalf of the City of Fort Worth, Fort Worth properties that overlap into the other counties are not reflected separately in Tarrant County's report to the City of Fort Worth. Tarrant County Accounting staff indicated that Tarrant County does not currently have a report broken down by county. However, tax levies from overlapping district accounts, amounts paid and due are noted within Tarrant County's records and are included on the Tarrant County Tax Website.

Department of Internal Audit discussions with Tarrant County Accounting staff indicated that a new report or a query could be created to provide the City of Fort Worth with collection amounts by county. Tracking of property tax revenue, by county, could lead to better trend analysis for budgetary and/or economic development purposes. Property tax revenue, by county, could also be considered useful to the Mayor and City Council.

Additional testing was conducted on the overlapping districts by checking the Tarrant County Tax website to see if the payments were made and the overlapping district identified. There are three (3)



methods on the Tarrant County website to search property tax accounts -- Owner Name, Account Number and Property Location.

- Using the *Owner Name* search to find a specific property works well if the owner does not own a large number of properties. For example, Parker County properties with “Walsh Ranch” at the beginning of the Owner Name yields more than 400 properties.
- When using the *Account Number* search, Tarrant County’s account number is required. However, the overlapping districts only have their account numbers, which will not work in this search.
- Using the *Property Location* search requires the location or address for the property. Mineral rights properties do not have location or addresses, so this search does not work for mineral right property inquiries.

Recommendation 2A:

The Chief Financial Officer should request that Tarrant County provide the Financial and Management Services Department with a breakdown of property tax revenue reported, by county (e.g., Tarrant, Denton, Parker, Wise and Johnson).

Auditee’s Response: Concur. The Treasury Division of the Department of Finance will work with Tarrant County to ensure that a breakdown of property tax revenue is reported to the City of Fort Worth by county, including Tarrant, Denton, Parker, Wise and Johnson counties.

Target Implementation Date: October 1, 2015

Responsibility: Chief Financial Officer
Assistant Director of Finance for the Treasury Division

Recommendation 2B:

The Chief Financial Officer should either request the ability to expand search options for Fort Worth properties in overlapping districts (per the Tarrant County Tax Website) or request a copy of Tarrant County’s Property Tax database.

Auditee’s Response: Concur. The Treasury Division of the Department of Finance will make the request for expanded search options for all Fort Worth properties located in overlapping districts located in the Tarrant County Website. If this is not possible, the request will be made to have Tarrant County furnish Financial Management Services with a copy of the property tax database.

Target Implementation Date: October 1, 2015

Responsibility: Chief Financial Officer
Assistant Director of Finance for the Treasury Division



Acknowledgements

The Department of Internal Audit would like to thank the Financial Management Services Department, the GIS Division of the Information Technology Solutions Department, the Tarrant Appraisal District, Tarrant County and Denton County for their cooperation and assistance during this audit.



Exhibit I – Questioned Properties

	TAD Account	2014 Appraised Value	Potential CFW Tax	Comment
1	07418701	\$1,500.00	\$12.83	
2	41570901	\$3,000.00	\$25.65	
3	41570936	\$3,900.00	\$33.35	
4	07493967	\$4,000.00	\$34.20	
5	41565177	\$4,200.00	\$35.91	
6	41565169	\$4,250.00	\$36.34	
7	07905076	\$5,000.00	\$42.75	
8	41576748	\$6,800.00	\$58.14	
9	41460081	\$7,800.00	\$66.69	
10	07595697	\$8,000.00	\$68.40	
11	41564871	\$8,200.00	\$70.11	
12	40183092	\$8,500.00	\$72.68	
13	41576756	\$9,000.00	\$76.95	
14	07435827	\$10,000.00	\$85.50	
15	41570898	\$10,000.00	\$85.50	
16	41576764	\$10,000.00	\$85.50	
17	40183084	\$10,200.00	\$87.21	
18	07464452	\$10,500.00	\$89.78	
19	40183173	\$10,600.00	\$0.00	General Homestead / Over 65
20	41570944	\$10,600.00	\$90.63	
21	41693957	\$10,600.00	\$90.63	
22	07445458	\$11,100.00	\$94.91	
23	40183157	\$12,300.00	\$0.00	General Homestead / Over 65
24	41570855	\$12,500.00	\$106.88	
25	41694082	\$12,500.00	\$106.88	
26	41460103	\$13,700.00	\$117.14	
27	40412776	\$13,900.00	\$118.85	
28	41570928	\$16,100.00	\$137.66	
29	07493932	\$16,400.00	\$140.22	
30	41460073	\$16,400.00	\$140.22	
31	41498690	\$16,400.00	\$140.22	
32	07595751	\$16,500.00	\$141.08	
33	07464401	\$17,800.00	\$152.19	
34	07494343	\$17,800.00	\$152.19	
35	41533666	\$25,600.00	\$218.88	
		\$375,650.00	\$3,016.07	



Exhibit I – Questioned Properties (continued)

	TAD Account	2014 Appraised Value	Potential CFW Tax	Comment
36	41495691	\$1,000.00	\$0.00	Right Of Way – City of Fort Worth
37	41475976	\$7,536.00	\$0.00	Right Of Way – City of Fort Worth
38	41473620	\$18,818.00	\$0.00	Right Of Way – City of Fort Worth
		\$27,354.00	\$0.00	
39	04310837	\$1,444.00	Unknown	Acreage of the lot is questionable.
40	04599039	\$6,032.00	\$51.57	
41	04306112	\$625,195.00	\$0.00	Government-Owned
		\$632,671.00	\$51.57	
42	06515479	\$371.00	\$3.17	
43	03982114	\$501.00	\$0.00	Government-Owned
44	03981584	\$501.00	\$0.00	Right Of Way – City of Fort Worth
45	04496442	\$7,405.00	\$63.31	
46	04837568	\$37,900.00	\$0.00	General Homestead / Over 65
47	05242339	\$142,308.00	\$1,216.73	
48	41265017	\$217,844.00	\$1,862.57	
49	41265009	\$823,110.00	\$7,037.59	
		\$1,229,940.00	\$10,183.37	
50	04717295	\$20,778.00	\$177.65	
51	03796728	\$33,000.00	\$282.15	
52	04717287	\$40,293.00	\$344.51	
53	03796698	\$48,000.00	\$410.40	
54	03720748	\$63,613.00	\$543.89	
55	05844134	\$78,000.00	\$666.90	
56	03720772	\$209,088.00	\$1,787.70	
57	04719360	\$213,444.00	\$1,824.95	
		\$706,216.00	\$6,038.15	
58	04692934	\$455,882.00	\$3,897.79	
59	07984332	\$20,000.00	\$171.00	
60	04087291	\$411,370.00	Unknown	Property located partially in CFW
		\$887,252.00	\$4,068.79	
Total:		\$3,859,083.00	\$23,357.95	

Source: TAD and Auditor Calculations