



INTERNAL AUDIT REPORT

Property Tax Reconciliation

Mayor

Mattie Parker

March 23, 2023

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3-23-2023

Date

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3-23-2023

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3/23/2023

Date



Executive Summary

This *Property Tax Reconciliation* Audit was performed in accordance with the approved schedule of engagements identified in the Department of Internal Audit Fiscal Year 2023 Annual Audit Plan.

As part of the Fiscal Year 2023 Annual Audit Plan, the Department of Internal Audit conducted this Property Tax Reconciliation audit. The City of Fort Worth (CFW) Planning and Data Analytics (P&DA) Department receives the total certified tax roll from the county appraisal districts and uses them to calculate the property tax revenue for the next fiscal years' budget.

Internal Audit staff reviewed the processes and internal controls to determine whether those controls are sufficient to minimize the risks associated with budgeting for the property tax revenue. Our testing identified an internal control weakness where the City does not validate the property counts and accuracy of appraisal amounts used to determine the budgeted revenue. Finally, there was a weakness due to out dated procedures which ensures the continuity of the City being able to calculate the budget for property tax revenue.

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

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Background

The county appraisal districts appraise the City of Fort Worth (CFW) properties and calculate the exemptions within their county. The appraisal districts include Tarrant, Denton, Parker, Wise and Johnson counties. The total certified tax rolls from the county appraisal districts for the City are given to the Tarrant County Tax Assessor-Collector, and the CFW P&DA Department. The CFW P&DA Department uses the certified tax rolls to calculate the property tax revenue for the budget. CFW City Manager's Office determines if the tax rate should remain the same, increase or decrease, subject to Texas State Tax Code Chapter 26. The finalized tax rate is then sent to the Tarrant County Tax Assessor-Collector which is used for billing and collection of property taxes levied within the CFW city limits. The property tax revenue represents approximately 58% of the Fiscal Year 2023 budgeted general fund revenue.

On June 6, 1992, the CFW entered into an agreement with the Tarrant County Tax Assessor-Collector to collect property taxes (ad valorem) levied by the CFW. 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 CFW pays the Tarrant County Tax Assessor-Collector a per account (property) charge.

Audit Objectives

The objectives of the audit were:

- To determine Tarrant County property tax records, include payments for all non-exempt Appraisal District accounts or the County can provide an adequate explanation for the non-payment of taxes.
- To determine whether the City revenue can be reconciled to property tax records within the Tarrant County Tax Assessor-Collector's Office.

Audit Scope

Citywide, with a review of available data within the test period between November 1, 2021 and June 30, 2022. Testing may have occurred beyond this period as deemed necessary.



Methodology

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

- reviewed CFW Policies and Procedures;
- reviewed CFW budget meetings;
- interviewed P&DA personnel;
- interviewed Appraisal District and Tarrant County personnel;
- compared CFW appraisal values to appraisal district certified appraisal values;
- compared CFW Geographical Information System (GIS) data to Tarrant County Appraisal District Certified tax rolls;
- reviewed the property tax levy collection amounts;
- compared property tax levy calculations to the actual levy amounts; and
- evaluated internal controls related to Property Tax Revenue budgeting and collection.

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.

Audit Results

Based on our test results, we determined the City has a process to calculate the fiscal budget for property tax revenue using certified appraisal values from the five county appraisal districts.

Our testing identified an internal control weakness wherein the City does not validate the property counts and accuracy of appraisal amounts used to determine the budgeted revenue. Additionally, there was a weakness due to out dated procedures which ensures the continuity of the City being able to calculate the budget for property tax revenue.

The Department of Internal Audit would like to thank the P&DA Department for their cooperation and assistance during this audit.



Overall Risk Evaluation

High	Medium	Low
	CFW does not validate the appraisal values and the number properties.	
	The Standard Operating Procedures for budgeting the City's property tax revenue are not up to date.	

Detailed Audit Findings

- The City of Fort Worth (CFW) does not validate if the appraisal values and number of properties received from the appraisal districts are accurate.**

The property tax revenue represents approximately 58% of the City's Fiscal Year 2023 general fund revenue. Revenue assumptions are based on the county appraised values received from the county Appraisal Districts. The City relies on the county Appraisal Districts to keep track of the number of properties and appraisal values. There is currently no process for reconciling or verifying to determine if the county appraised values are reasonable based on known development and number of properties listed is complete. The City could lose revenue it is otherwise entitled to, if the county appraisal districts either don't appraise the properties correctly, the appraised properties are not listed as Fort Worth, or do not send the accounts to Tarrant County Tax Assessor-Collector.

Recommendation 1: *The Planning and Data Analytics Director should work with the City Manager's Office to assign a department the accountability that will ensure a reconciliation of the number of properties (including annexations) and the appraisal amounts is performed.*

Auditee's Response:

Concur. The Planning and Data Analytics Department (PDAD) Director will procure market available vendor services that has the capability to reconcile the number of properties (including annexations) and validate that the correct appraisal amounts are being assessed. This project will require the consultation and assistance from the Financial Management Services department.

1. April 2023 –Reach out to former AD for viable vendor for this reconciliation and other
2. May 2023 – determine process for engaging a vendor for reconciliation (RFQ/RFP/?)
3. June 2023 – implement procurement process for vendor
4. August 2023 – work with vendor on time and resources needed to complete reconciliation
5. September 2023 – provide access to necessary resources
6. December 2023 – depending on timeline required either deliver said reconciliation or continue to work with vendor.



Target Implementation Date: December 31, 2023

Responsibility: Planning & Data Analytics

Applicable Department Head: Mark McDaniel, Interim Director Planning & Data Analytics

Applicable Assistant City Manager: N/A

2. The Standard Operating Procedures for budgeting the City’s property tax revenue are not up to date.

The Government Finance Officers Association's (GFOA) Best Practices recommend “*The documentation of financial and accounting policies and procedures should be evaluated annually and updated periodically, at least every three years, according to a predetermined schedule. Changes in policies and procedures that occur between these periodic reviews should be updated in the documentation promptly as they occur*”. The Standard Operating Procedures (SOP) for budgeting the City’s revenue need to be updated. The SOP’s have not been updated since 2014. Standard Operating Procedures for budgeting the City’s revenue should have the calculations for revenue and be kept up to date to ensure business process continuity within the City.

Recommendation 2: *The Planning and Data Analytics Director should update the Standard Operating Procedures for budgeting the City’s property tax revenue.*

Auditee’s Response:

Concur. The Planning and Data Analytics (PDAD) Director will ensure that the Standard Operating Procedures for budgeting the City’s property tax revenue are updated, as determined necessary, during the FY2024 budget development process. This approach will enable the department to parallel the current process during which the department can implement identified areas for improvement. The PDAD will obtain input from the Financial Management Services department during the procedural review.

1. April 30 – establish working group
 - a. Work with Team to gather data from appraisal districts
 - b. Create workbook for calculations
 - c. Begin draft procedures
2. June 30 – Use draft to develop June estimates if available
 - a. Revise draft procedures
3. July 25 – Use draft to develop July certified values
 - a. Revise draft procedures
4. October – share draft procedures with working group and all involved parties
 - a. Cuss and discuss said process
 - b. Revise draft procedures
5. December 31 2023 – Finalize procedures and share

Target Implementation Date: December 31, 2023

Responsibility: Planning & Data Analytics

Applicable Department Head: Mark McDaniel, Interim Director Planning & Data Analytics

Applicable Assistant City Manager: N/A