

MUNICIPAL AUDITING REPORT

CITY OF ROANOKE

Real Estate Billing

June 5, 2013

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Audit Plan Number: 12013

*Municipal Auditing Department
Chartered 1974*

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BACKGROUND

General Information

Property taxes represent one portion of a well-balanced revenue system for local governments. Receipts from these taxes help provide services to the community including funding for public safety, education, parks, and libraries. Real estate taxes represent the City of Roanoke's largest source of general revenue, as follows:

Fiscal Year	Real Estate Tax Revenue
2012	\$ 80,380,584
2011	\$ 80,136,283
2010	\$ 79,340,016
2009	\$ 77,745,945
2008	\$ 74,318,987

Per 14th Period AC512 report

The real estate tax rate is set each year by City Council. The current tax rate is \$1.19 per \$100 of assessed value. The rate changed most recently in July 2006, when it was reduced from \$1.21 per \$100 of assessed value. The assessment year begins on July 1 and ends on June 30. The Code of Virginia requires local governments to assess real property annually. During this reassessment process, property values are examined and adjustments are made where necessary. Properties within the City are visited by a City appraiser at least every four [4] years.

Reassessment notices are mailed to property owners in January for the upcoming tax year. Taxpayers then have the opportunity to appeal an assessment to the Office of Real Estate Valuation, Board of Equalization, or Circuit Court. Assessments are the basis for determining annual real estate taxes for property owners in the City. Real estate taxes are payable in two equal installments. Bills are mailed the last week in August for the first installment, due October 5. Bills for the second payment, due on April 5, are mailed the last week of February.

The basic processes for maintaining accurate records of real property ownerships, values, tax levies, payments, and amounts due involve a number of City departments:

- The Office of Real Estate Valuation: Appraises all real property at 100% of market value each year; analyzes parcel sales, land subdivision, zoning changes and updates and maintains building and property characteristics; manages certain tax abatement programs; and evaluates trends that affect the market value of real property.
- Board of Equalization: A three-member citizen panel appointed by the Circuit Court, it reviews evidence from the taxpayer and the Real Estate Valuation Assessors as part of the appeals process. The Board may either reduce or increase an assessment based on the evidence.

- Commissioner of the Revenue: Maintains taxable owner records for real estate parcels; prepares the Land Book in accordance with the Code of Virginia; and administers the Real Estate Tax Relief Program for the elderly, disabled, and veterans.
- Treasurer: Collects all taxes and revenues for the City.
- Clerk of the Circuit Court: Records all documents [deeds, deeds of trust, etc] involving property transactions in the City of Roanoke.
- Planning, Building & Development: Processes permits for construction, reconstruction, alteration, repair, conversion, or demolition of buildings or structures; issues certificates of occupancy; coordinates review and approval of real estate parcels for subdivisions and mergers.
- Engineering Division: Provides engineering design services and construction administration to support utility, infrastructure, facility and environmental capital projects for the City; provides production, archiving, and distribution of maps and GIS map data for the City.
- Department of Technology: Provides geographic information to citizens and staff through the internet, desktop applications, databases and mapping products; provides comprehensive services in the deployment of new application systems, support and enhancement of existing business systems, process re-engineering, contract management, and day-to-day problem identification and resolution.
- City Clerk: Maintains operation of an on-line document imaging database providing public access to official City Council minutes, agendas, ordinances, resolutions and other documents adopted by City Council; publishes all notices of public hearings; and maintains all Conflict of Interest, Financial Statements and Real Estate Disclosure forms for City Council, members of authorities, City Planning Commission, Board of Zoning Appeals, City Manager, Real Estate Valuation assessors and constitutional officers for public inspection.

Flowcharts providing an overview of the various real estate billing processes are included in the **Exhibits** section of this report.

System Implementation

On March 4, 2010, City and vendor staff successfully launched a new real estate billing and cashiering system – GRM or Government Revenue Management, developed by Manatron, Inc [now Thomson Reuters]. The new system replaced the existing cashiering and real estate tax systems. Additionally, it integrated with Real Estate Valuation’s mass appraisal system, Proval, also a Manatron product.

The GRM system implementation required a substantial investment by the City of both monetary and human capital resources. Employees from the Department of Technology, Real Estate Valuation, the Commissioner of the Revenue's Office, the City Treasurer's Office, the Billings and Collections Department, and the Department of Finance worked together to ensure a successful implementation. Information on over 45,000 real estate parcels was transferred into GRM from the legacy mainframe system and paper records. City personnel worked with the vendor to configure the new system to comply with Commonwealth of Virginia and the City of Roanoke laws and regulations. Staff worked on system setup and conducted testing. Project team members identified a number of essential business requirements. The vendor committed to providing software design modifications to accommodate these requirements.

A number of functionality issues, of varying significance, remained outstanding when the system went live. Alternative procedures were developed to manage these issues. City management and Manatron representatives signed a Memorandum of Understanding [MOU] formally specifying issues expected to be resolved post-implementation. Issues were prioritized based on criticality. While some items remain pending, critical issues have been addressed. As with many systems, there exists an ongoing cycle of enhancements, issues and patches that sustains a perpetual list of requests for system fixes.

OBJECTIVES

To document real estate billing processes and identify opportunities for strengthening internal controls.

SCOPE

We reviewed real estate billing processes in place as of February 1, 2012, to include:

- Timelines for annual reassessments and appeals
- Interfaces between GRM and Proval
- Tax exemptions and credits
- Production of Land Book and annual billing
- Supplemental billings
- Service charges in lieu of taxes
- Changes in ownership
- Improvements and additions

We neither documented nor evaluated real estate appraisal processes.

We finalized our documentation of the billing process in August 2012. We subsequently provided the process flowcharts and outlines to Commissioner of the Revenue staff.

Due to Municipal Auditing staffing vacancies and prioritization of other audits and investigations, we postponed our review of GRM collections and cashiering processes. We will resume work on the second phase of this project as soon as time allows.

METHODOLOGY

We utilized the following methodology:

- Reviewed laws and regulations associated with real estate assessments and billings, including the following Code sections:
 - City - Chapter 2, Article IX – City Treasurer
 - City - Chapter 2, Article X – Commissioner of the Revenue
 - City - Chapter 32, Article I – General
 - City - Chapter 32, Article II – Real Estate Taxes Generally
 - Virginia - Title 58.1, Chapter 32 – Real Property Tax
- Interviewed employees in Real Estate Valuation, Commissioner of the Revenue's Office, Treasurer's Office, and Planning, Building, and Development to gain an understanding of processes related to real estate billing.
- Using flowcharts and process outlines, documented the detailed processes involved and worked with staff from various departments to evaluate alignment of their processes with applicable laws and regulations.
- Reviewed forms, reports, and approvals associated with the GRM system, which help ensure accurate and timely billings.
- Reviewed notes and records related to the implementation of the GRM system and interviewed Department of Technology staff regarding the current state of the GRM system.
- Worked extensively with the GRM software in the test environment to develop a complete understanding of the system's functionality.

RESULTS & CONCLUSION

Overall, real estate billing processes and GRM system functionality were reasonably well-developed and processes were consistently applied. While the GRM system has not entirely met management's original expectations, it has achieved improved functionality over the legacy systems it replaced and is fulfilling its core purpose. There are still real estate billing transactions that require considerable manual intervention and review. This decreases efficiency and increases the risk of errors. As with any software, regular GRM upgrades and patches are expected to improve functionality over time.

We noted a limited number of opportunities for reducing risks and providing incremental improvements in the timing and frequency of supplemental billings. We communicated our observations to management in a separate letter.

We want to thank the employees in the Commissioner of the Revenue's Office, Treasurer's Office, Office of Real Estate Valuation, and the Department of Technology for their cooperation and assistance throughout the audit.

Debbie Noble, CPA
Senior Auditor

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Assistant Municipal Auditor

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Municipal Auditor

Exhibit A: Real Estate Annual Assessment Overview

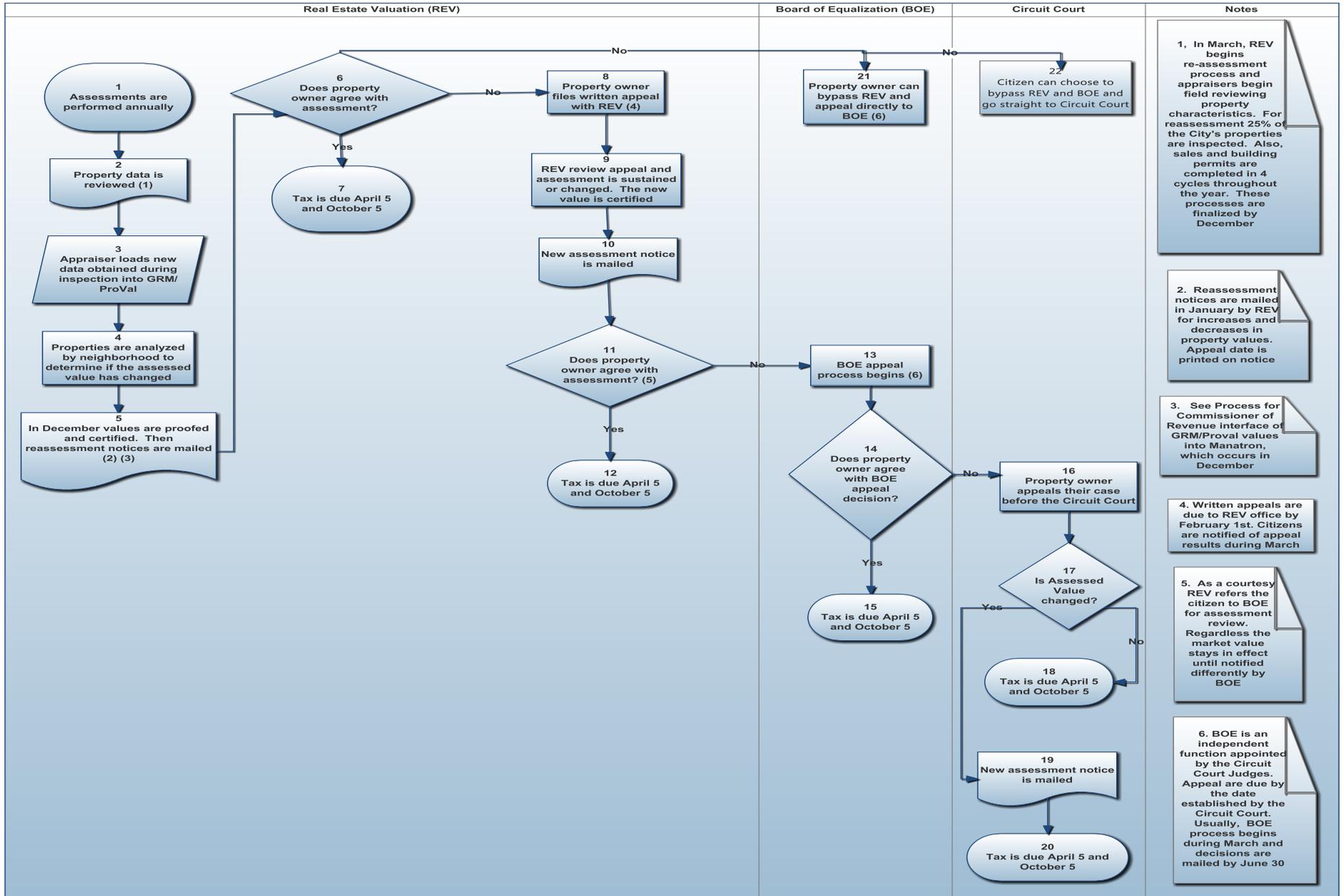


Exhibit B: Timeline

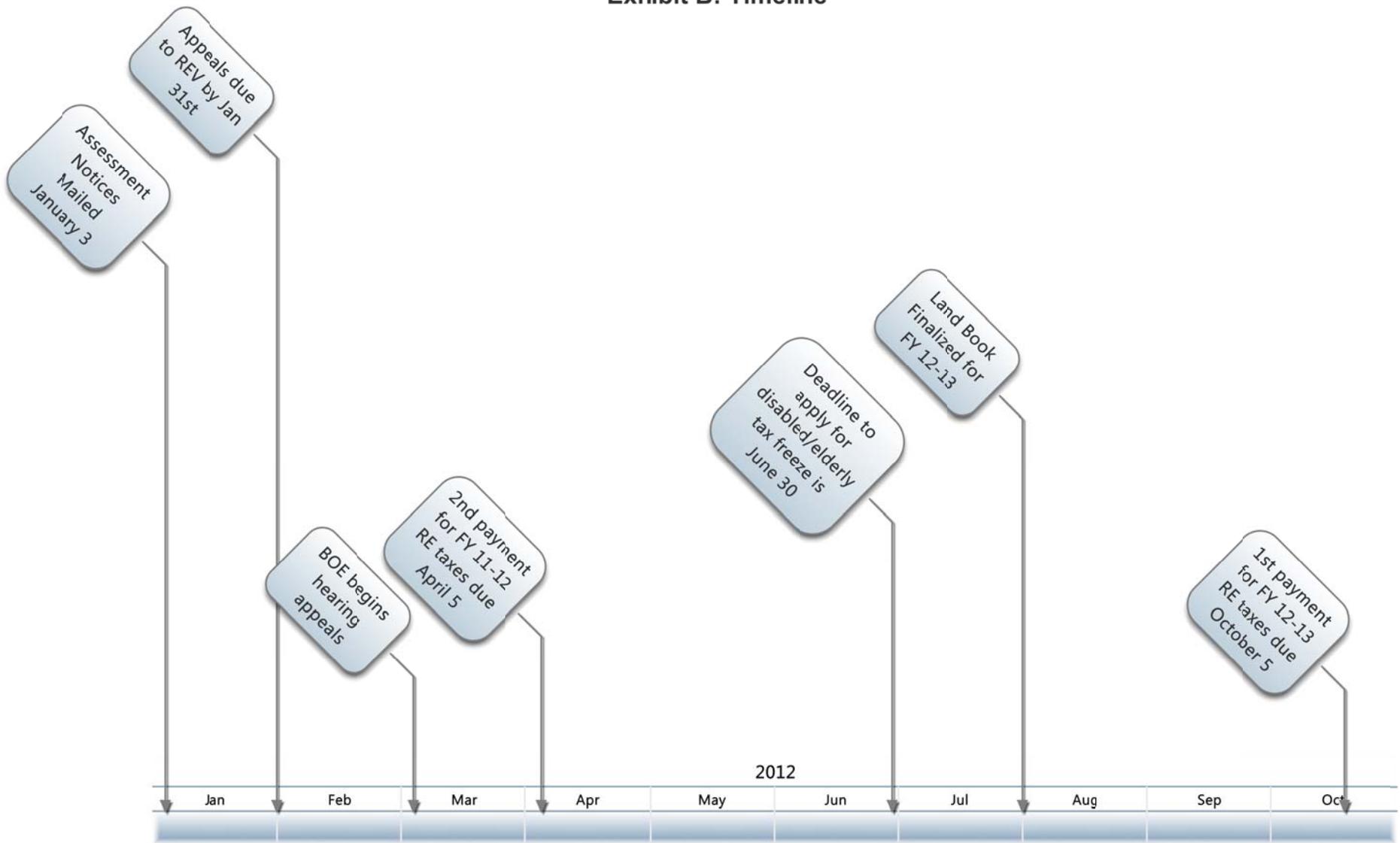


Exhibit C: Proval / Manatron Interface

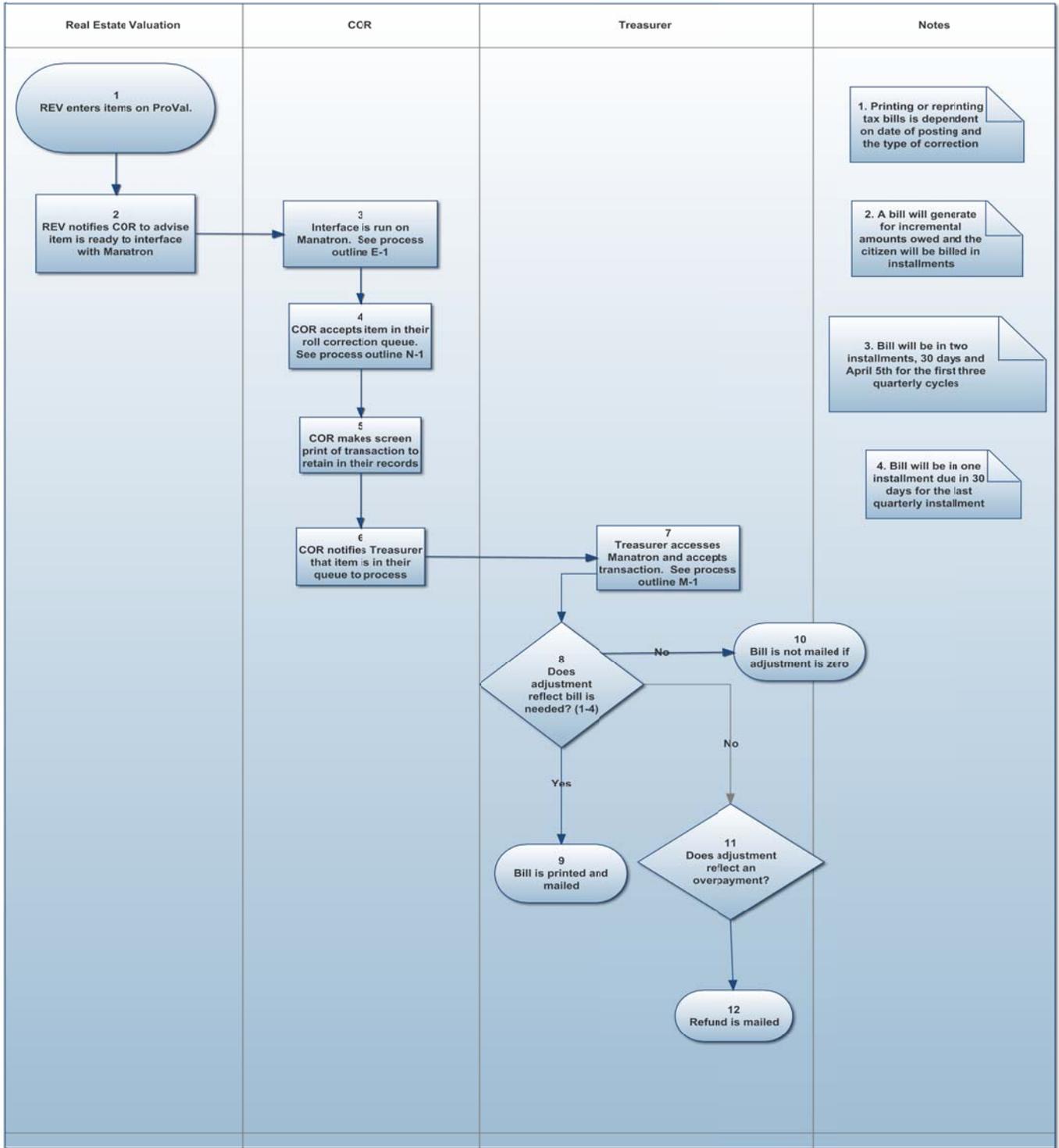


Exhibit D: Land Book

Land Book D-1

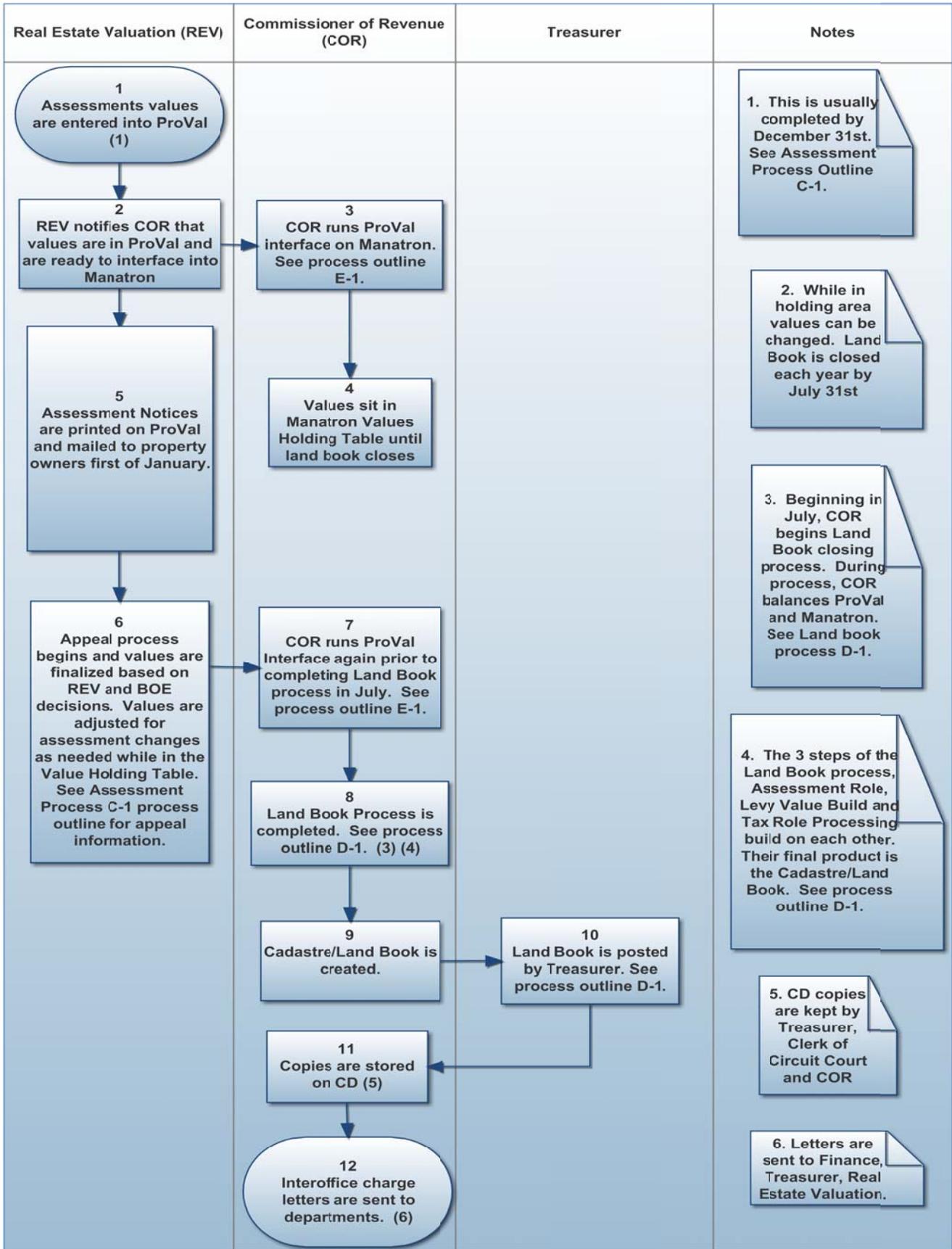


Exhibit E: Tax Freeze

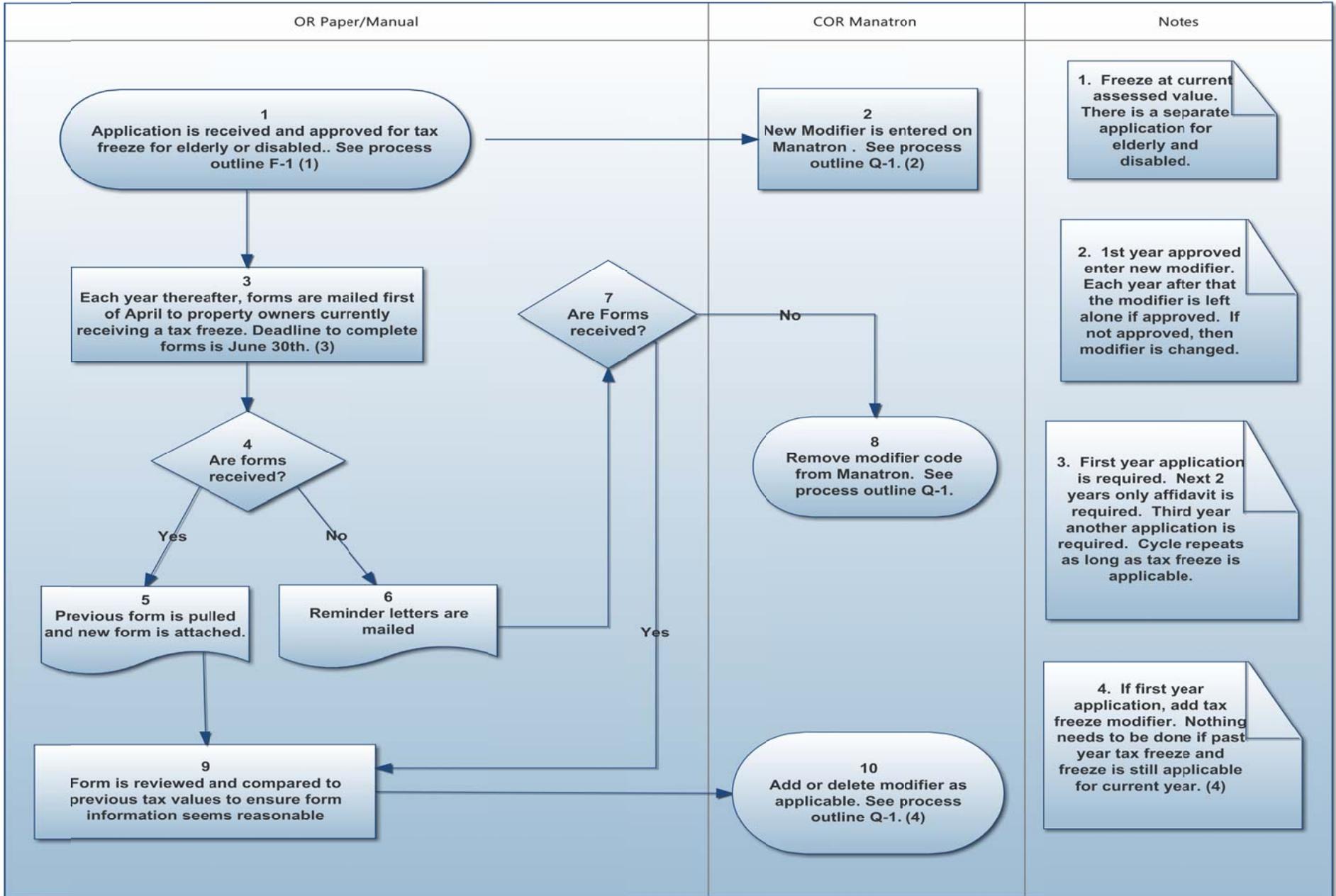


Exhibit F: Subdividing / Merging Parcels

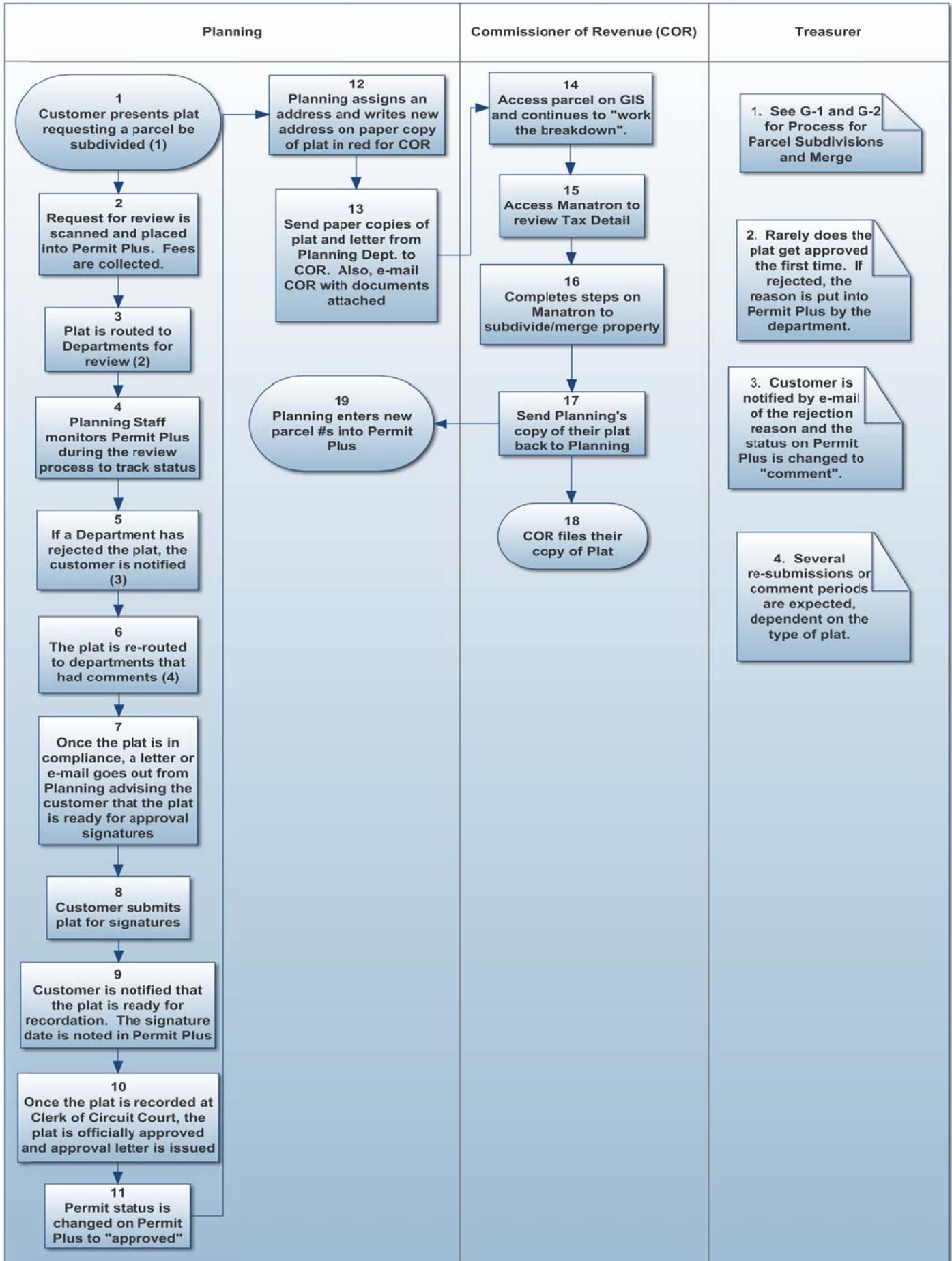


Exhibit G: Building Permits

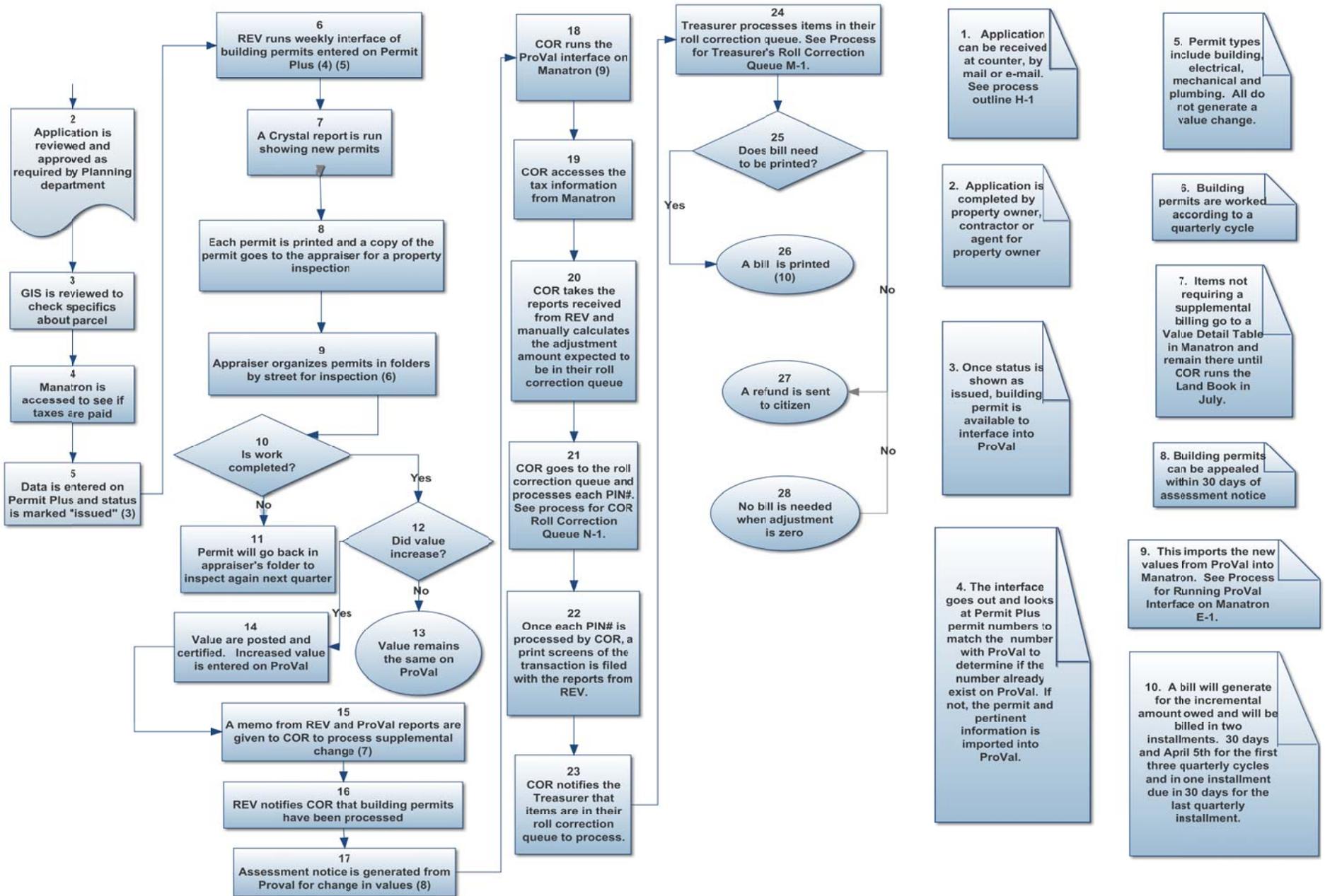


Exhibit H: Transfers

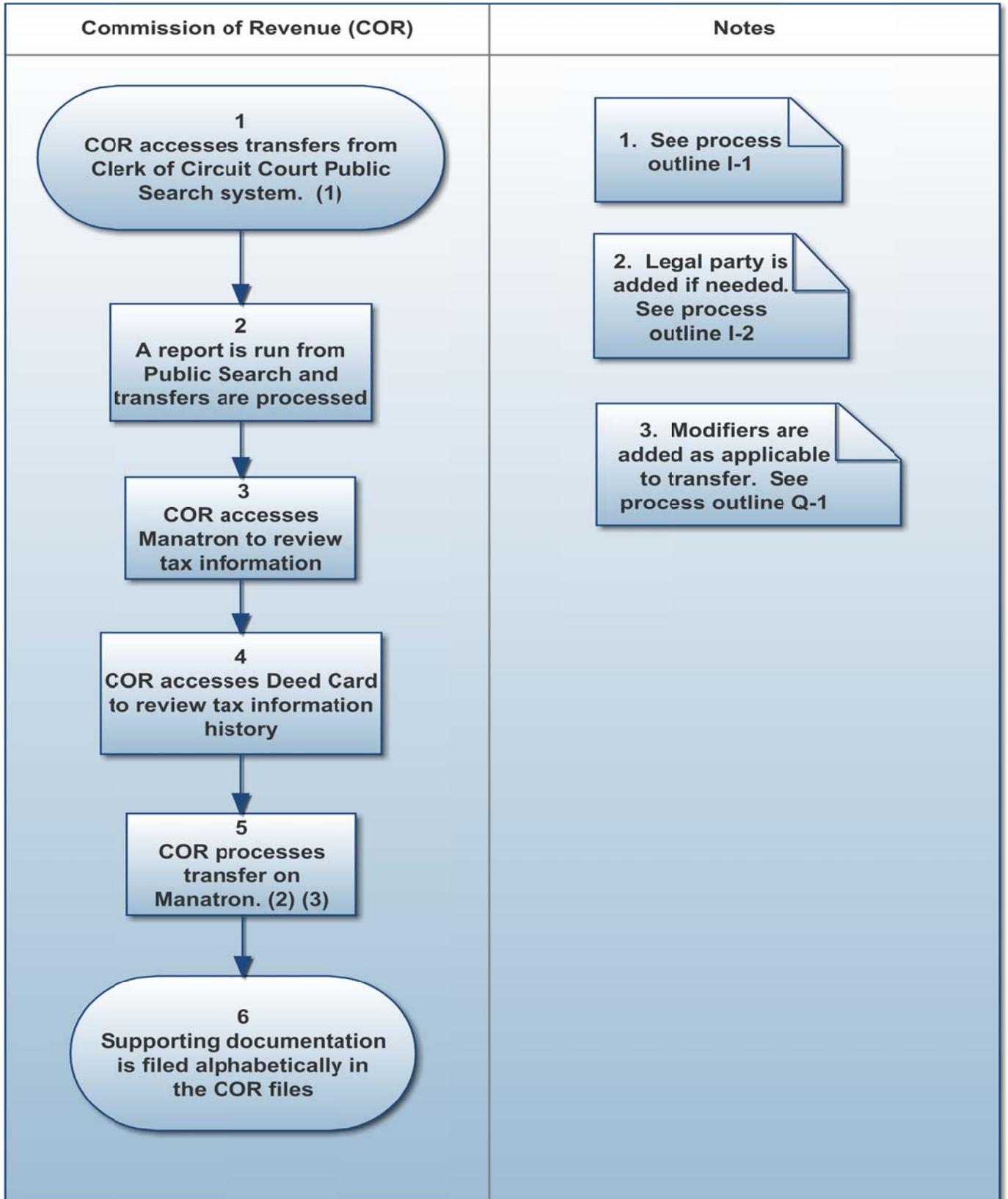


Exhibit I: Wills / Heirs

Commission of Revenue (COR)	Notes
<div style="text-align: center;"> <p>1 COR is notified by family member when a relative owning property has deceased (1-4))</p> <p>↓</p> <p>2 COR accesses transfers from Clerk of Circuit Court Public Search system</p> <p>↓</p> <p>3 COR accesses Manatron to review tax information</p> <p>↓</p> <p>4 COR accesses Deed Card to review tax information history</p> <p>↓</p> <p>5 COR processes transfer on Manatron. (5) (6)</p> </div>	<p>1. See process outline I-4.</p> <p>2. If will was prepared and the will has been recorded at the Court House, the information will appear on Public Search</p> <p>3. If the recording is under a deed book and page number, the information has to be pulled at the Court House.</p> <p>4. If there is a will, there will be a List of Heirs; however, there can be List of Heirs and no will</p> <p>5. Legal party is added if needed. See process I-2</p> <p>6. Modifiers are added as applicable to transfer. See process outline Q-1</p>

Exhibit J: Service Charge in Lieu of Tax

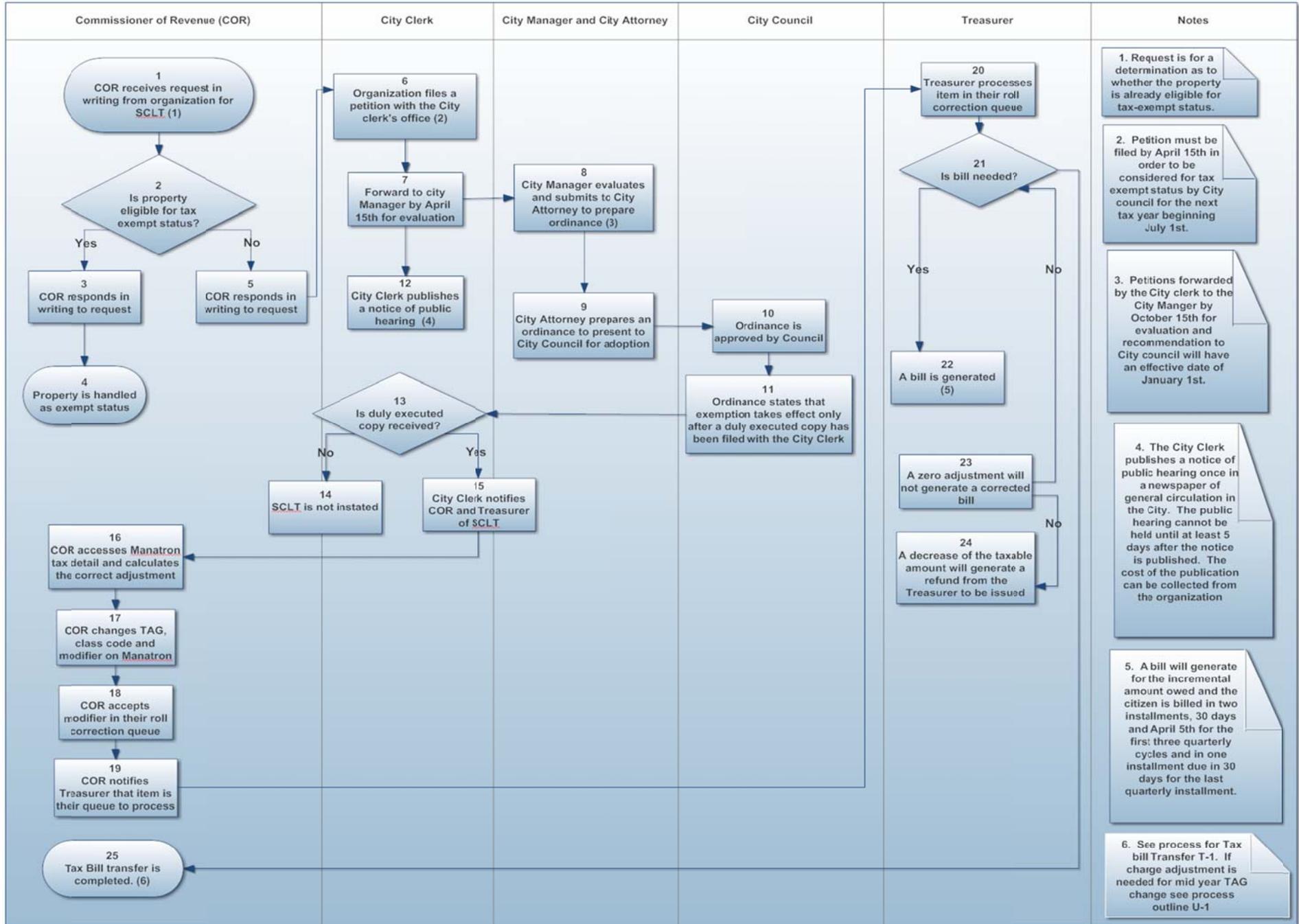


Exhibit K: Disabled Veterans Exemption

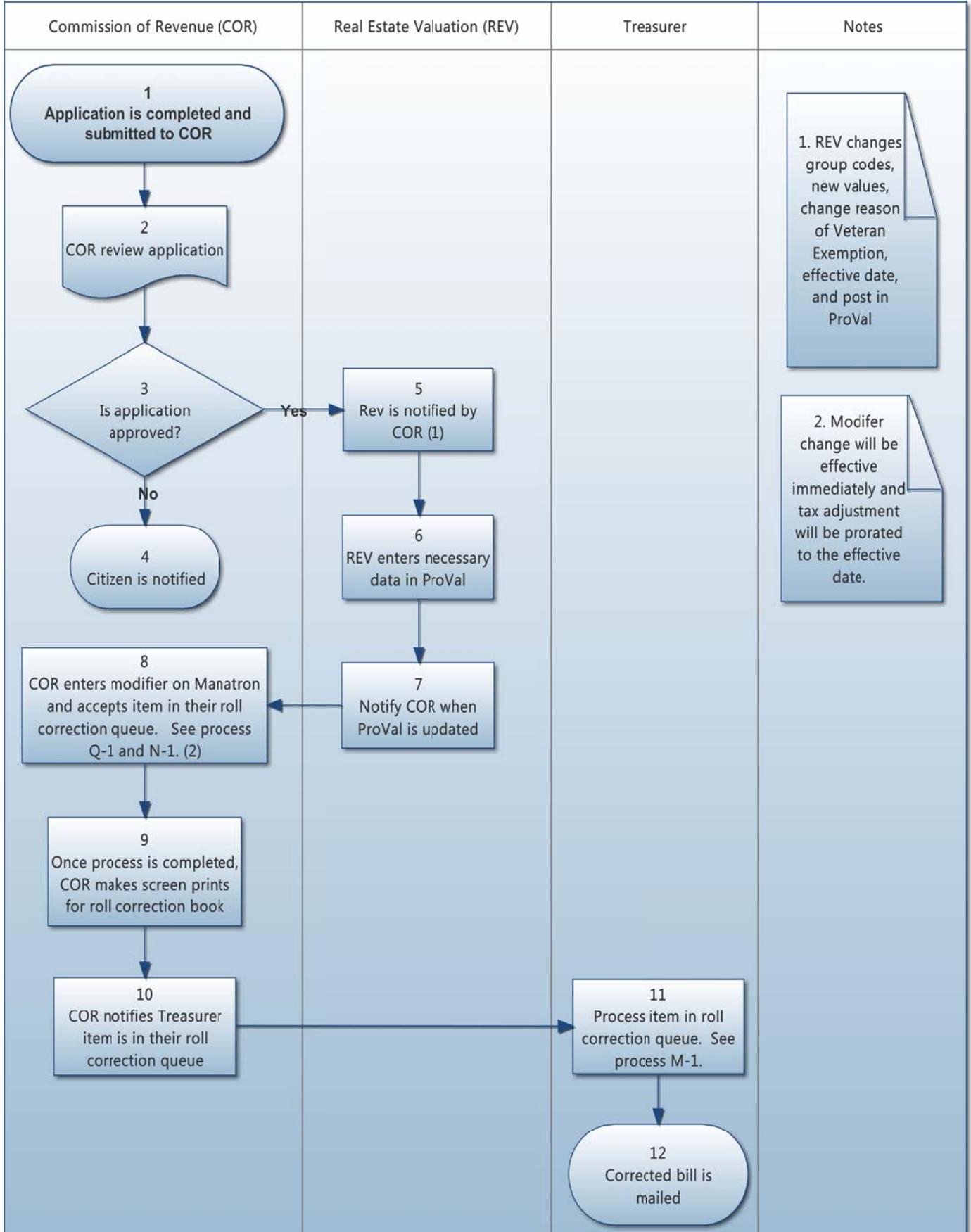


Exhibit L: Tax Status Change

Tax Status Change L-1

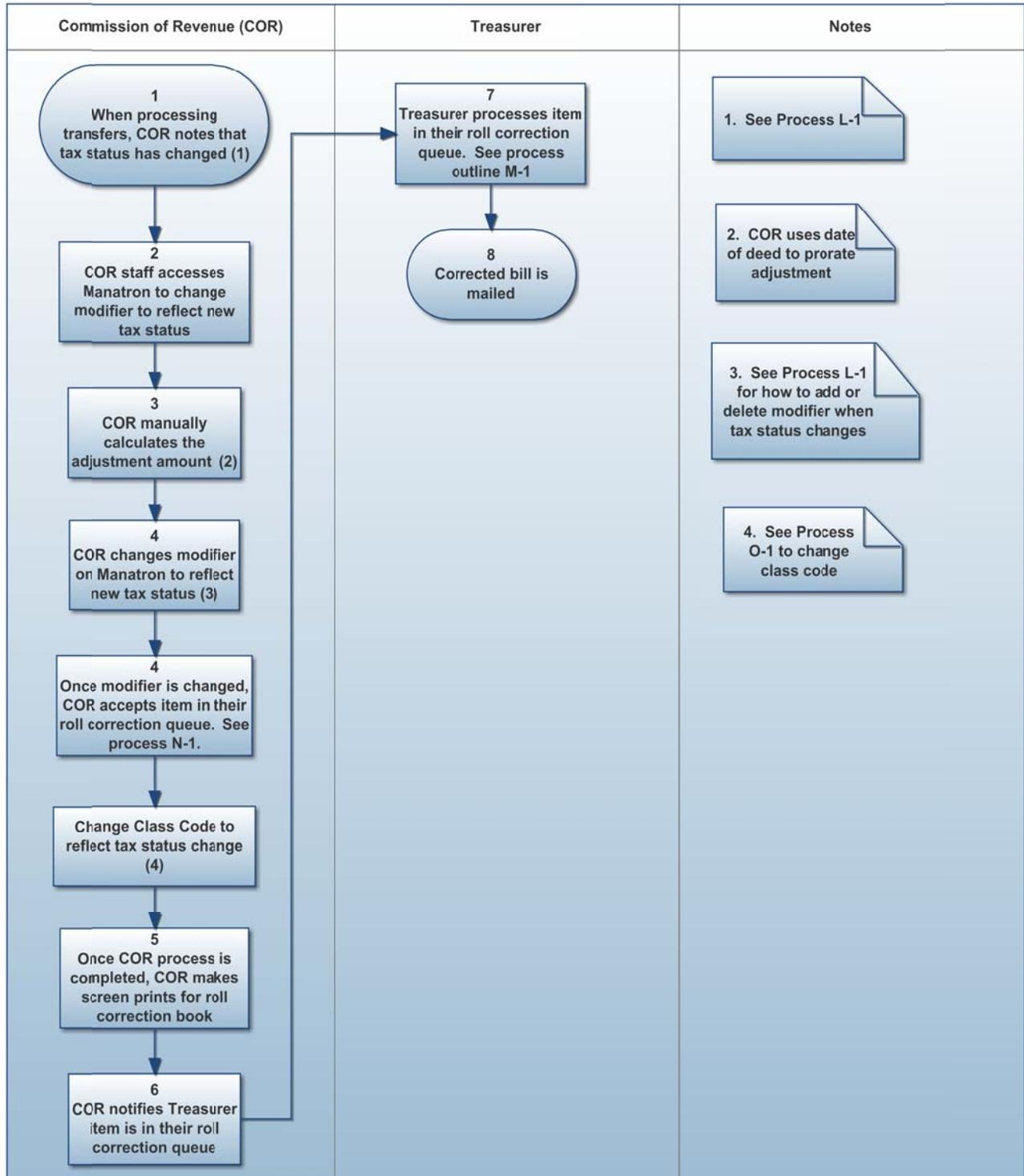


Exhibit M: Rehabs

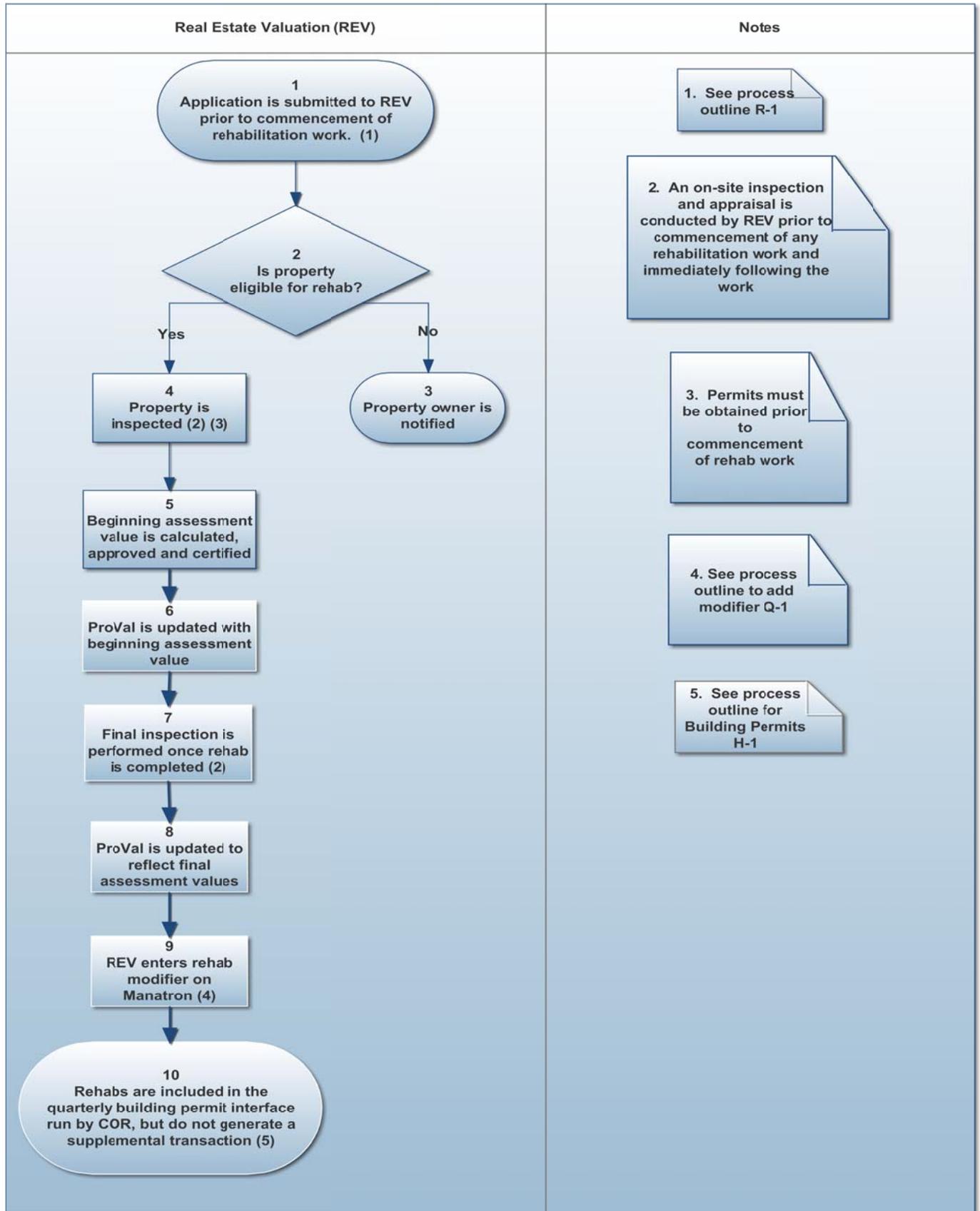


Exhibit N: Leaseholds

