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# **Assessment and Taxation Branch Audit**

March 12, 2007

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The Office of the City Auditor conducted  
this project in accordance with the  
*International Standards for the  
Professional Practice of Internal Auditing*

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# Assessment and Taxation Branch Audit

## Executive Summary

The Assessment and Taxation Branch is one of three branches within the Planning and Development Department. Its mission is to provide a quality assessment base, which complies with the *Municipal Government Act* and ensure that the relative share of the tax base of residential and non-residential property remains stable and meets the approved funding of the Corporation and the required Provincial Education Requisitions. In 2006 the Branch budgeted \$612 million in property and business tax revenue for the City with an operating budget of \$13.3 million and 170 full time equivalent (FTE) positions.

Property and business taxes are a primary source of revenue for municipalities representing 49 percent of the City's total budgeted revenue for 2006. The Alberta Municipal Government Act and the Assessment Complaints and Appeals Regulation set out the primary rules that the City must abide by to collect property, business or other taxes. All activities that are associated with assessment and taxation of property, business or other systems are governed by this legislation.

Because of the highly legislated requirements and the amount of revenue generated by this Branch, a high degree of assurance is also provided by third parties such as the external auditor, Alberta Municipal Affairs (conducts annual and detailed audits every five years), and through other studies such as the Property and Business Tax Structure Review Committee.

Based on this review the OCA believes that overall the Assessment and Taxation Branch is delivering assessment and taxation services in an effective, efficient, and economical manner. However, there are opportunities to:

- improve the workplace issues through leadership development and workplace improvement initiatives
- assign a position with sufficient authority to provide oversight to the annual assessment cycle to ensure that operations are being scheduled in an efficient manner and timelines continue to be met
- develop effective performance measures to ensure that assessment and taxation services are delivered in a cost-effective manner.

**Information Technology**

The Tax Assessment and Collection System (TACS) application is used by this Branch to obtain and maintain information required to collect the property and business tax revenue. In order to ensure that the City is maximizing its value for money, the OCA believes that a more detailed analysis comparing features, determining compatibility and associated advantages and disadvantages should be completed.

**Recommendation 1**

The OCA recommends that the Assessment and Taxation Branch perform a detailed comparison of the TACS software platform versus other commercially available software.

**Management Response:** Agreed

The branch recognizes that there are other options available and will develop a formalized approach to keep abreast of opportunities. The branch will also prepare a detailed analysis of other options.

At the commencement of the audit, the Assessment and Taxation Branch was behind in the data submission of its assessment revisions and supplementary assessments into the provincial software system. The initial cause for the delay was that the Province introduced a new software system that required changes by the City in how it relayed its information to the provincial assessment software. The Information Technology Branch was not able to complete the required changes within the required timelines resulting in the City not meeting the required deadlines. The Information Technology Branch has since implemented a revised TACS resources plan and has completed changes that allow the City and Provincial systems to exchange information.

The TACS system is a pivotal tool used to prepare and declare the tax roll, print the tax notices and collect taxes. Effective ongoing TACS support and maintenance is required.

**Recommendation 2**

The OCA recommends that the Assessment and Taxation Branch ensure that the TACS software is adequately supported through regular monitoring and communication with IT.

**Management Response:** Agreed

There have been significant improvements in both the level and structure of IT support which is addressing the concerns identified in this report. The branch has already restructured and redefined the roles of the TACS working committee and TACS steering committee resulting in more accountability assigned to both IT and branch staff.

### Workplace Issues

The OCA conducted a work environment survey which surveyed 71% of Branch staff. Results from this survey as well as exit interviews performed by Human Resources Branch, and the Assessment and Taxation Branch Employee Engagement Survey compiled by an external consultant, identified a number of work environment issues raised by Branch employees.

Some of these issues have attributed to the high turnover within the Branch currently at 10.8% whereas the City average is 4.5%. It is important that on-going monitoring be performed to ensure that the Assessment and Taxation Branch remains a competitive and attractive place to work. Maintaining strong leadership and an experienced workforce within the Branch is important to ensure that the tax revenue (in excess of \$600 million) that is generated by the Branch is not at risk.

#### Recommendation 3

The OCA recommends that the new Branch Manager make it a priority to develop actions plans dealing with staff perceptions/concerns that have been identified by work environment surveys.

#### Management Response: Agreed

The Assessment and Taxation Branch management has accepted that there have been challenges with respect to work place issues and are committed to addressing these concerns on an ongoing basis.

Results from the OCA work environment survey, HR exit interviews and the employee engagement survey show that employees believe they are over worked. One issue in particular stood out, workload relating to Assessment Review Board (ARB) and Municipal Government Board (MGB) appeals.

There is a potential risk of increased appeals which has occurred in the past (1998/1999). An increased ARB/MGB appeal load places additional work pressure on Branch employees and could impact both employee morale and the Branch's ability to manage/defend the appeals. As a result it could translate into higher appeal losses, which could negatively affect the City's finances.

The OCA commends the Branch on their work ensuring that the assessment base is sound, defensible, and that stakeholders have a proactive voice. Their success is highlighted by actual appeal losses of less than one percent for 2005 and 2006, of 0.7% and 0.75% respectively. As a comparison, Calgary faces a greater number of appeals than Edmonton, the impact of which is reflected in the amount of dollars budgeted for losses. In 2006, Edmonton budgeted \$6.8 million for 2005 and 2006, whereas Calgary budgeted \$28.5 million in 2006, up from \$19 million budgeted in 2005. Based on Calgary's experience, it is estimated that a potential increase in the number of appeals could have implications of tax leakage greater than \$10 million if appropriate planning and resourcing of appeals did not take place.

Despite the Branch's work and practices, the decision whether to appeal, and the decision to reward an adjustment to taxpayers, is beyond the control of the Branch and thus still presents significant risk of increased appeals and losses. Therefore the OCA believes that given the large potential financial implications, that contingency planning is required.

**Recommendation 4**

The OCA recommends that the Assessment and Taxation Branch prepare a contingency plan to ensure that the potential for significant tax loss is mitigated should a significant portion of the assessment base come under appeal.

**Management Response: Agreed**

In addition to the current proactive measures including the rules and guidelines in place for when and how to defend appeals, the Branch will develop a contingency plan to address its ability to effectively defend the assessment base under extenuating circumstances.

**Performance Measures**

The recommendation from a previous audit in 2002 that related to performance measures for the Assessment Operations Section has not been completed. Although some progress has been made, the Branch has not yet developed appropriate productivity standards (performance measures and benchmarking). In addition, the existing performance measures used by the other business units have not been enhanced to adequately measure operating performance. Management has acknowledged that more work is required to develop performance measures but at this time the shortage of resources has resulted in a lower priority.

The Corporate Business Planning Department is currently developing a framework for corporate performance management and benchmarking. It is important to ensure that further performance measures development and benchmarking efforts within the Assessment and Taxation Branch meet the proposed criteria and framework.

**Recommendation 5**

The OCA recommends that the Assessment and Taxation Branch develop performance measures in compliance with the guidelines being developed by the corporation.

**Management Response: Agreed**

The Branch will work with the Corporate Business Planning Department to develop key performance measures that are meaningful and that meet the corporate guidelines.

**Efficiency/Economy**

A survey of Canadian assessment jurisdictions shows that from an economical perspective the City of Edmonton's investment in Assessment and Taxation resources is in line with costs incurred by other assessment jurisdictions in Canada.

Successful and timely completion of the annual assessment cycle is critical in order to meet deadlines that are required by legislation and timelines expected by the taxpayers. The annual assessment cycle includes all the processes performed by the Assessment and Taxation Branch to prepare and declare the tax roll, print the tax notices and collect taxes. These processes include coordinating duties performed by the Information Technology Branch, including the Digital Print Center.

The declaration of the tax roll and the printing of the assessment and tax notices are managed by several people. This has resulted in each unit/section focusing on its own activities rather than incorporating a comprehensive process view. This focus could lead to a greater risk of missing the statutory deadlines and possibly missing opportunities for efficiencies by coordinating activities. In addition, unexpected deviations to these timelines could jeopardize the compliance to legislative requirements, cause significant confusion and media attention, and delay collection of taxes.

**Recommendation 6**

The OCA recommends that the Assessment and Taxation Branch assign a project leader with sufficient authority to manage the annual assessment cycle.

**Management Response:** Agreed

This role is currently carried out by the Director of Audit and Standards in conjunction with the Director of Taxation. The Director of Audit and Standards position is currently vacant. The Branch has had discussions about where this function should reside. The Branch will review the opportunities and options that may be available and an individual will be assigned to fulfill this role.

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# Assessment and Taxation Branch Audit

## 1. Introduction

The Office of the City Auditor's (OCA) approved 2006 work plan included a Branch Audit of the Assessment and Taxation Branch. Branch Audits are planned for all City of Edmonton branches over an eight-year cycle. These audits entail a review of Branch operations, including a core service review, performance measurement review, and a risk identification and assessment exercise as part of the OCA's role in providing assurance on the delivery of City services.

Assessment and Taxation is one of three branches within the Planning and Development Department. In 2006 the Branch budgeted \$612 million in property and business tax revenue for the City with an operating budget of \$13.3 million and 170 FTEs (full time positions). Its mission<sup>1</sup> is to provide a quality assessment base, which complies with the *Municipal Government Act* and ensures that the relative share of the tax base of residential and non-residential property remains stable and meets the approved funding of the Corporation and the required Provincial Education Requisitions. The Branch's core service responsibilities include:

- Development and implementation of accurate and fair modeling techniques and criteria to ensure that the City meets legislated requirements for market value assessment
- Provision of accurate and fair valuations for property and business owners
- Development and maintenance of accurate property information, ownership and assessment records
- Provision of annual and supplementary assessments for all property and business entities
- Management and administration of the City's defence of assessment complaints and appeals
- Response to inquiries and requests for information related to assessment and taxation
- Provision of accurate annual tax notices to all property owners and business entities and the subsequent collection of taxes
- Assisting in the preparation of the City of Edmonton Long Range Financial Plan
- Meeting Provincial requirements for recording and reporting information for Assessment Audit and Equalized Assessment
- Accounting collection and distribution of the Alberta Education Tax
- Administration and collection of Local Improvement charges and other municipal fees

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<sup>1</sup> Planning and Development 2006-2008 Department Business Plan

In addition to the Office of the Branch Manager, the Assessment and Taxation Branch is organized into three sections:

- Assessment Quality Management Section
- Assessment Operations Section
- Taxation Section

The Office of the Branch Manager is comprised of the Branch Manager and several specialty staff. This area funds the development and maintenance of the Tax Assessment and Collection System (TACS) application used by this Branch to obtain and maintain the City's assessment records. This area also liaises with the Information Technology (IT) group responsible for maintaining TACS. The operating budget for this office is \$2.3 million with 8 FTEs.

The Assessment Quality Management Section is comprised of the Equalization Audit and Quality Assurance Unit and the Standards, Research and Policy Unit. This section is responsible for equalized assessment, audit and quality assurance as well as standards, research and policy development. The operating budget for this section is \$1.5 million with 19 FTEs.

The Assessment Operations Section comprises four units: Industrial and Land Assessment Unit, Commercial/Multi-Residential Assessment Unit, Residential Assessment Unit, and Business and Exempt Assessment Unit. These units develop, maintain and implement market value assessment models and prepare the annual and supplementary assessment rolls for property, business, and education. The operating budget for this section is \$7.4 million with 100 FTEs.

The Taxation Section is comprised of a Tax Accounting Unit, a Customer Services Unit and a Tax Collection Unit. These units provide accounting services related to assessment and taxation, customer service centre and collection of business and property taxes. The operating budget for this section is \$2.2 million with 41 FTEs.

## 2. Background

### 2.1. Assessment and Taxation Process

Property and business taxes are a primary source of revenue for municipalities. Alberta's Municipal Government Act (Parts 9 to 12) and the Assessment Complaints and Appeals Regulation set out the primary rules that municipalities must abide by to collect property, business or other taxes. All activities that are associated with assessment and taxation of property, business or other systems are governed by this legislation.

## Property Tax

Property taxes are levied based on the value of the property as determined during the property assessment process. The property tax system is comprised of two distinct processes — preparing and communicating the assessments, and applying the tax rate to collect the tax levies. *Assessment* is the process of placing a market value on a property for taxation purposes. This value is used to calculate the amount of taxes that will be charged to the owner of the property. *Taxation* is the process of applying a tax rate to a property's assessed market value to determine the taxes payable by the owner of that property. The assessor's job is to prepare assessments and report the assessment roll to the Provincial Assessment Auditors. The municipal council is responsible for setting the tax rate. In addition to setting the tax rate, the municipality is responsible for calculating the taxes payable, collecting the taxes, and remitting the Provincial Education portion to the Province.

## Business Tax

When a municipality chooses to raise revenue by imposing a business tax on the businesses operating within its boundaries, the council must pass a business tax bylaw<sup>2</sup> before the municipality can impose the business tax. The business tax is payable by the person who operates the business. As in the property tax system, the business tax system is comprised of two distinct processes — preparing and communicating the assessments, and determining and applying the tax rate to collect the tax levies.

The business assessment is a value placed on any space occupied or used by a person for the purpose of operating a business. The assessment is used for taxation purposes only, and does not reflect profitability of a business. Businesses are assessed on the basis of the typical net annual rental value of the space occupied or used for the purpose of the business, or at a percentage of the realty assessment prepared under Part 9 of the Municipal Government Act. "Net Annual Rental Value" means the value determined by the assessor, through analysis of market information, to represent typical rental value of the premises, exclusive of customary operating and occupancy costs. Each year, City Council approves a tax rate for all Edmonton businesses. This rate is applied to the business assessment and determines the amount of business tax due for the year.

## Tax Formula

The relationship between property or business assessment and taxation is seen in the following formula: Assessed property or business value x Tax rate = Taxes payable. This formula means that the assessed value of the property or business in dollars is multiplied by the applicable tax rate set by the municipality. The result is the amount of taxes due from each property or business within the municipality.

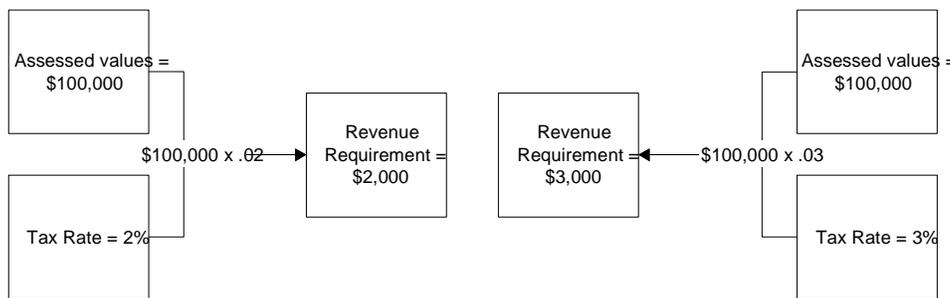
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<sup>2</sup> City of Edmonton Bylaw #14160 - 2006 Business Tax, Business Tax Rate, Supplementary Business Tax, and Supplementary Business Assessment Bylaw

Each year, municipal councils determine the amount of money they need to operate their municipality. From this total they subtract known and estimated revenues (for example, licenses, grants, permits, and interest income) to determine the amount of taxes that are required from property and business taxes. The tax rate a municipality chooses to set depends on the assessment base in the municipality and the amount of money it needs to generate using the property and business tax. The tax rate is the percentage of assessed value at which each property or business is taxed in a municipality. The tax rate is usually expressed in terms of a mill rate. A municipality adjusts its tax rate on a yearly basis depending on its revenue requirement and the assessment base, which is also adjusted annually.

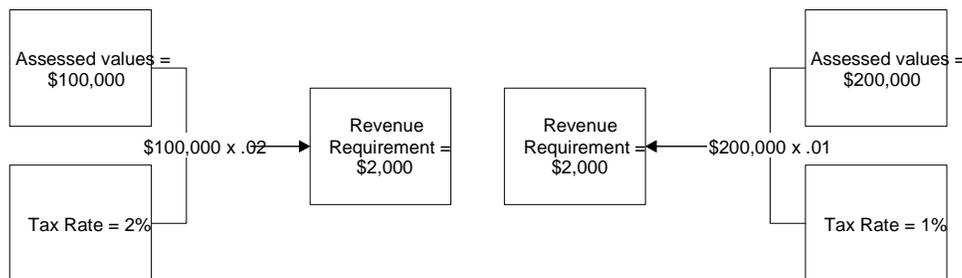
If the council requires more revenue to run the municipality and the total assessment base in the municipality has remained the same, the council will have to increase its tax rate to generate the additional revenue (Figure 1). The tax rate increases from 2% to 3% to accommodate the increased revenue requirement of \$1,000 (\$2,000 to \$3,000) when assessed values remain the same (\$100,000).

**Figure 1. Assessed Values Remain Same – Revenue Requirement Increases**



If the council requires the same revenue to run the municipality and the assessment base in a municipality increases, council would reduce its tax rate to reflect the increased assessment base (Figure 2). The tax rate decreases from 2% to 1% to accommodate the increased assessed values (\$100,000 to \$200,000) and keep the revenue collected the same (\$2,000).

**Figure 2. Assessed Values Increase – Revenue Requirement Remains Same**



## Provincial Education Property Tax

In Alberta, municipalities collect taxes on behalf of the Province to fund public education. Each year, the province notifies municipalities of the amount of education taxes they are required to collect. The calculation is based on a formula that takes into account the equalized assessment reported by the assessor in each municipality and the provincial uniform education property tax rate. Municipalities include the education property tax on their annual property tax bills to property owners. Municipalities collect education tax dollars from their taxpayers, and send them either to the province or to a separate school board as per requirements of school support declaration.

## Other Property Related Taxes

In addition to the municipal property and business taxes and the provincial education property tax, a municipality may use a number of other property-related taxes to generate revenue for services such as:

- Supplementary property assessment and taxation - Assess new properties that were constructed after December 31 of the previous year and collect property taxes on them for a portion of the current year.
- Supplementary business assessment and taxation - Assess new business premises that were occupied after December 31 of the previous year and collect business taxes on them for a portion of the current year.
- Business revitalization zone (BRZ) tax - Sometimes business owners wish to improve the area in which they do business. Specific BRZ taxes will be shown on business tax notices for all businesses operating in the BRZ.
- Local improvement tax - Imposed on a specific area within a municipality to fund a service or improvement applied only to a particular area.
- Special tax - Provision or construction of a special service that will benefit a defined area within a municipality.

Grants in lieu of taxes - Property and business premises that are owned by the federal or provincial government is exempt from property taxation. However, for most government-owned property that would normally be assessed and taxed if it were owned by a non-government entity, a municipality can apply for a grant in lieu of taxes equal to the amount it would have collected in property taxes.

## Assessed Values

The Municipal Government Act grants an assessor the power to enter any premises or request confidential financial information in order to prepare a property or business assessment. Assessments can be prepared using the direct sales comparison, income or cost approach to create values using mass appraisal techniques. Once the assessment is complete, the assessed value for each property or business is entered on the assessment roll, which lists all of the property and business assessments in a municipality. Assessment notices are created from the information on the assessment rolls. A notice is mailed to every property and business owner in a municipality. If

owners do not agree with the assessed value of their property or business as listed on their assessment notice, they can appeal their assessment.

### Appeals

To ensure that owners have a voice in their assessments, the Municipal Government Act has set out a complaint and appeal process for property and business owners who have concerns about their assessment. If the assessor and the owner cannot come to an agreement, the property or business owner can begin the formal appeal process by filing a complaint/appeal with the local assessment review board within prescribed timelines. The process may involve up to two levels of formal appeal. The first is at the municipal level with the Assessment Review Board (ARB), and the second is at the provincial level, with the Municipal Government Board (MGB). Either board can order a change to the assessment on a property. Any assessed person, taxpayer, or person acting on behalf of an assessed person or taxpayer may file an assessment complaint. Any decision the ARB or the MGB makes is for the year under appeal only. Any ARB decision can be appealed by the owner to the MGB whether or not the appeal was successful at the ARB level. The Municipal Government Act provides that the decisions of the MGB are final in matters relating to property assessments. Points of law related to the MGB may be appealed to the Court of Queen's Bench and pursued through the Alberta judicial system.

## 2.2. Trends and Statistics

Tables 1 and 2 set out the operating budget and FTEs for the Assessment and Taxation Branch.

**Table 1 – Operating Budget**  
(Thousands of Dollars)

	<b>2004 Budget</b>	<b>2004 Actual</b>	<b>2005 Budget</b>	<b>2005 Actual</b>	<b>2006 Budget</b>
Expenses	11,999	11,608	12,262	12,518	13,095
Less: Miscellaneous Receipts*	-	293	-	85	-
<b>Tax Levy</b>	<b>11,999</b>	<b>11,315</b>	<b>12,262</b>	<b>12,433</b>	<b>13,095</b>

\* Miscellaneous receipts include provincial grants (\$259,497 for 2004 and \$67,238 for 2005) which reflect one time bonuses for meeting performance deadlines in reporting the assessment rolls on the new Provincial Asset Computer System.

**Table 2 – Full Time Equivalents - FTEs**

	<b>2004 Budget</b>	<b>2005 Budget</b>	<b>2006 Budget</b>
Full Time Equivalents FTEs	158	160	170

The Assessment and Taxation Branch collects property and business taxes for the City; as a result these revenues are not reported in the Branch's budget but are reported in corporate revenue accounts as shown in Table 3. These figures reflect the continued growth in the number of properties and businesses and annual corporate operating and capital budget increases approved by Council.

**Table 3 – Taxation Revenues**  
(Thousands of Dollars)

	<b>2004 Budget</b>	<b>2004 Actual</b>	<b>2005 Budget</b>	<b>2005 Actual</b>	<b>2006 Budget</b>
Property Tax Revenue	418,555	419,731	453,332	454,202	490,687
Property Tax Revenue (supplementary)	1,771	2,202	2,341	2,976	2,200
Business Tax Revenue	84,829	85,242	89,857	93,343	96,418
Grants in Lieu*	15,182	15,551	16,111	16,278	17,063
Penalties	4,400	4,810	4,400	5,435	4,400
Other	1,050	1,031	1,100	996	1,100
<b>Total Revenue</b>	<b>525,787</b>	<b>528,567</b>	<b>567,141</b>	<b>573,230</b>	<b>611,868</b>

\* Grants in lieu – payments made on property that is owned by the federal or provincial government.

### 2.3. Audit Objectives and Scope

The objectives, scope and methodology of this Branch Audit are discussed in Appendix 1. The audit was undertaken to provide assurance that the services delivered by the Assessment and Taxation Branch are being delivered in an effective, efficient and economical manner. The OCA reviewed the following studies/reviews/audits to minimize duplication of effort and determine whether additional work was required:

- 311 Call Center
- Report of the Property and Business Tax Structure Review Committee - September 27, 2005 (Appendix 2)
- Areas scheduled for audit in the 2006-2007 Detailed Assessment Audit by Alberta Municipal Affairs - Assessment Services Branch (Appendix 3)
- Areas examined by the external auditor (Appendix 4)

Based on results of the planning phase, the audit included detailed reviews of the following:

- IT issues
- Staffing issues
- Performance measures
- Other issues & opportunities for improvement

### 3. Observations and Analysis

#### 3.1. Completeness of the Property Tax Roll Database

The Tax Assessment and Collection System (TACS) database used by the Assessment and Taxation Branch is updated by nightly downloads from the Alberta Land Titles Registry database (responsible for registering land ownership rights in Alberta). Any changes registered with Alberta Land Titles Registry are downloaded to TACS and the changes are then made to the TACS database. The TACS database relies on a geographical/mapping software package called Microstation to display the property on a map. All changes to TACS are automatically passed to Microstation.

The Alberta Land Titles Registry changes forwarded from TACS are manually entered in the Spatial Land Information Management (SLIM) database. SLIM has a drawing for each property in the City of Edmonton that is reflected in the Alberta Land Titles Registry database as well as some that have been proposed but are not yet registered with the Alberta Land Titles Registry. The current plan is to integrate SLIM into TACS (replacing Microstation) in 2007 to eliminate the duplication that now exists.

Commercial POSSE (Permit One Stop Service) is an electronic application used to develop electronic workflow, allow data entry and maintenance by multiple users, develop and track data relationships, and enable user-defined interfaces. POSSE was used to build the Electronic Permitting System. The Electronic Permitting System is a province-wide electronic permitting system providing data management for permit applications and approvals, plan reviews, and inspections for municipalities that have provincially-accredited building, electrical, gas, and plumbing disciplines. The POSSE database uses SLIM to view properties. Information on business licenses and permits that are recorded in POSSE are provided daily to the Assessment and Taxation Branch. Information obtained from business licenses is used to update business assessments and information from building permits is used to update property assessments. For example, the building permits obtained through POSSE are used to identify new construction. The Branch then determines when a new construction project is complete and issues a supplementary tax notice for the partial year owing on the property (Table 4). This provides for a more complete and up to date tax roll.

**Table 4 - Supplementary Taxes**

	2003	2004	2005	2006
Supplementary Assessments	\$853.2 million	\$857.6 million	\$988.2 million	\$1,124 million
Supplementary Tax Revenue	\$2.8 Million	\$2.2 million	\$2.96 million	\$3.1 million
Number of Supplementary Assessments	6,395	7,113	7,075	8,282

In order to ensure the integrity of the databases, the Assessment and Taxation Branch performs queries comparing:

- TACS database to Microstation (comparison made each time a change is made to TACS)
- TACS database to Microstation (annual comparison)
- Microstation to SLIM database (annual comparison)

All differences are reviewed and corrected as necessary. Identified differences are usually due to timing differences or certain properties that are not mapped in SLIM (individual condo units).

The Assessment and Taxation Branch also performs inspections (re-inspection cycle activity) of residential neighborhoods to ensure that information used to determine assessment values is both accurate and up to date. A pilot project conducted in 2005 indicated that a review of approximately 1,350 accounts in one neighbourhood resulted in a net positive cash flow of approximately \$12,000. Although this reassessment resulted in additional income, the main purpose of this activity is to ensure that the tax roll is equitable. This project is ongoing, however, given the lack of available resources in the Assessment and Taxation Branch at this time, this activity was not pursued to its fullest extent in 2006.

To determine whether all properties in the City of Edmonton were included on the property tax roll (regardless of whether or not they were exempt from taxes), the OCA used audit software to extract data from TACS database and verified the tax assessment figures used in the audited 2005 City of Edmonton Consolidated Financial Statements. The current plan to integrate SLIM into TACS (replacing Microstation) in 2007 will also give additional assurance that the information in TACS and SLIM is being reconciled for completeness on a continual basis.

The OCA believes that the Assessment and Taxation Branch is performing adequate procedures to assure the completeness of the realty tax roll.

## **3.2. Information Technology (IT) Issues**

### **TACS Software**

The Assessment and Taxation Branch uses the TACS software platform which is a fully integrated assessment and taxation software that assists in the building and completing of the municipal tax assessment and appraisals as well as the collection and billing of business and property taxes. This software is used and supported solely by the City of Edmonton. The OCA conducted a scan to determine if there were potential alternative software products on the market. Our scan determined that a number of integrated assessment software packages are used within Canada and the USA. In addition, there is software that focuses on subsets of the municipal taxation process such as tax billing and collection, and mass appraisal.

The cost to develop and maintain the TACS application for the 2006-2007 annual cycle is estimated at approximately \$1.8 million. This amount includes the legislated reporting requirements as well as user directed project work. Preliminary work by the Information Technology Branch and the Assessment and Taxation Branch determined that commercial software packages are available at a lower cost; however more detailed analysis is required to determine functionality, degree of fit and cost effectiveness of these solutions.

<b>Recommendation 1</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that the Assessment and Taxation Branch perform a detailed comparison of the TACS software platform versus other commercially available software.</p>	<p><b>Comments:</b> Agreed - The branch recognizes that there are other options available and will develop a formalized approach to keep abreast of opportunities. The Branch will also prepare a detailed analysis of other options.</p> <p><b>Planned Implementation:</b> This is ongoing, with improved documentation of the evaluation of available software options within the industry.</p> <p><b>Responsible Party:</b> Assessment and Taxation Management Team</p>

**IT Support**

At the commencement of the audit, the OCA was informed that the Assessment and Taxation Branch was behind in submitting the City’s assessment data into the Provincial Government’s assessment software. These overdue data submissions consisted of revisions to the municipal assessment base as a result of taxpayer inquiries and appeals as well as the supplementary assessments resulting from new construction completions during the year dating back to the 2004 assessment year. The Province of Alberta - Municipal Affairs requires that assessment revisions and supplementary assessments be submitted within six months. As a result the City was not meeting required timelines for submitting revisions to the province

The initial cause for the delay was that the Province introduced a new software system that required changes in how the TACS software relayed its information to the provincial assessment software. However, the City was not able to complete the changes within the required timeframe. The Assessment and Taxation Branch and IT Branch have since implemented a more systematic governance process that allows them to prioritize and address any future issues that arise.

The TACS system is a pivotal tool used to prepare and declare the tax roll, print tax notices and collect taxes. Ongoing TACS support and maintenance is required to ensure that taxpayer assessments are accurate, timely and fair, and that municipal taxes are collected. The Assessment and Taxation Branch, as the owners of the TACS

system, need to ensure that the information technology support that is required for their operation is adequate.

<b>Recommendation 2</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that the Assessment and Taxation Branch ensure that the TACS software is adequately supported through regular monitoring and communication with IT.</p>	<p><b>Comments:</b> Agreed - There have been significant improvements in both the level and structure of IT support which is addressing the concerns identified in this report. The Branch has already restructured and redefined the roles of the TACS working committee and TACS steering committee resulting in more accountability assigned to both IT and Assessment and Taxation Branch staff.</p> <p><b>Planned Implementation:</b> This is an ongoing process.</p> <p><b>Responsible Party:</b> Assessment and Taxation Management Team in conjunction with the IT Branch</p>

### 3.3. Workplace Issues

#### Work Environment

The OCA conducted a work environment survey to which 71%<sup>3</sup> of Branch staff responded. Assessment and Taxation Branch management is to be commended for encouraging employees at all levels to participate, which resulted in such a high response rate. Results from this survey, as well as exit interviews<sup>4</sup> performed by the Human Resources Branch and the Assessment and Taxation Branch Employee Engagement Survey and compiled by an external consultant, identify a number work environment issues raised by Branch employees. Some of these issues include:

- Staff feel overworked and short staffed (5.2% position vacancy rate, currently seven staff vacancies and two management vacancies, Dec 2006)
- Lack of employee recognition
- Employees feel salaries are not competitive
- Little opportunity for advancement to senior levels
- Lack of opportunity to attend leadership training or conferences

<sup>3</sup> 121 employees completed the work environment survey.

<sup>4</sup> Interviews were performed with Branch employees that were leaving employment with the City or the Branch

Some of these issues have contributed to the high annual turnover within the Branch (currently at 10.8%, whereas the City average is 4.5%).

In Alberta's current economic climate, maintaining competitive salaries as well as a healthy work environment is important in retaining and attracting staff. Non-competitive salaries and an unhealthy work environment could result in greater turnover and increased vacancies within the Branch. It is important that on-going monitoring be performed to ensure that the Assessment and Taxation Branch is a competitive and attractive place to work. Maintaining a strong leadership and workforce within the Branch is important to ensure that the tax revenue (in excess of \$600 million) that is generated by the Branch is not placed at risk.

The Assessment and Taxation Branch management has accepted that there have been challenges with respect to work place issues. Some staff members have worked extra hours and additional effort has been required. The vacancies are only part of the pressure staff are feeling, another factor is that the majority of the staff who have left had worked in the Branch for several years. There is a significant number of new inexperienced staff that require training and support. Also the volume and complexity of work continues to increase which also impacts work load.

Branch Management indicated that they have undertaken several initiatives to address the challenges some of which include:

- Continuing to recruit and train staff. Other options will be considered such as hiring consultants/retired staff, implementing technological options and work flow management practices that create efficiencies and better utilize resources.
- Recognizing staff accomplishments including celebrating team accomplishments through a luncheon, inviting the department manager to meetings to recognize the efforts of staff, and having staff present their work to the management teams.
- Administration taking steps to address some of the concerns regarding salary levels.
- Committing to being more active with the Alberta Assessors' Association by developing conference topics and extending more opportunities for staff to attend the conferences.

<b>Recommendation 3</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that the new Branch Manager make it a priority to develop actions plans dealing with staff perceptions/concerns that have been identified by work environment surveys.</p>	<p><b>Comments:</b> Agreed - The Assessment and Taxation Branch management has accepted that there have been challenges with respect to work place issues and they are committed to addressing these concerns on an ongoing basis.</p> <p><b>Planned Implementation:</b> Ongoing. Review and approve succession plan and identify training opportunities for staff development. Review conference attendance guidelines and amend as required. Continue to recruit staff for vacant positions and work with colleges and universities to raise awareness of the assessment profession and the City as an employer. Continue to review and monitor industry compensation levels to attract and retain qualified staff.</p> <p><b>Responsible Party:</b> Assessment and Taxation Management Team</p>

**Assessment Review Board (ARB) and Municipal Government Board (MGB) Workload Risks**

Results from the OCA work environment survey, HR exit interviews and the employee engagement survey show that employees believe they are over-worked. With respect to workload, one issue in particular stood out: work relating to ARB/MGB appeals. All business units in the Branch, as well as the Law Branch, are faced with significant ARB/MGB workloads. In particular the Assessment Operations Section of the Assessment and Taxation Branch is faced with the bulk of the frontline appeal work.

There is a potential risk of increased appeals which has occurred in the past (1998/1999 as a result of the move to net rent in business tax and the move from the cost approach to market value in assessments). An increased ARB/MGB appeal load places additional work pressure on Branch employees and could impact both employee morale and the Branch’s ability to manage/defend the appeals. As a result it could translate into higher appeal losses, which could negatively affect the City’s finances.

The Branch has in place rules and guidelines on handling appeals. These include assessment thresholds for when staff attend hearings versus submitting a written defense of the assessment, and when lawyers accompany staff. Exceptions are made when the outcome could set a precedence that could cause greater exposure or increased court activity for other similar circumstances. The Branch annually reviews and adjusts these thresholds as well as the allowances for court losses to ensure that

they are still applicable. The Branch also is very cognizant of decisions in other jurisdictions that could impact the appeal volumes and jeopardize assessments. For example, the City of Calgary experienced a high level of appeals for parkade assessments that were challenged because of ambiguity in their Bylaw. The City of Edmonton reacted quickly by amending/clarifying the wording in its bylaw to defend the parkade assessment base.

The OCA believes that the Assessment and Taxation Branch demonstrates some leading practices, such as being proactive with issues brought forward by taxpayers. The OCA commends the Assessment and Taxation Branch on their work ensuring that the assessment base is sound and defensible. Their success is highlighted by actual appeal losses of less than one percent for 2005 and 2006, of 0.7% and 0.75% respectively. As a comparison, Calgary faces a greater number of appeals than Edmonton, the impact of which is reflected in the amount of dollars budgeted for losses. In 2006, Edmonton budgeted \$6.8 million for 2005 and 2006, whereas Calgary budgeted \$28.5 million in 2006, up from \$19 million budgeted in 2005. Based on Calgary’s experience, it is estimated that a potential increase in the number of appeals could have implications of tax leakage greater than \$10 million if appropriate planning and resourcing of appeals did not take place.

Despite the Branch’s work and practices, the decision whether to appeal, and the decision to reward an adjustment to taxpayers, is beyond their control and thus still presents significant risk of increased appeals and losses. Therefore, the OCA believes contingency planning is required given the significant financial implications that may result if current proactive measures are not effective.

<b>Recommendation 4</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that the Assessment and Taxation Branch prepare a contingency plan to ensure that the potential for significant tax loss is mitigated should a significant portion of the assessment base come under appeal.</p>	<p><b>Comments:</b> Agreed - In addition to the current proactive measures including the rules and guidelines in place for when and how to defend appeals, the Branch will develop a contingency plan to address its ability to effectively defend the assessment base under extenuating circumstances.</p> <p><b>Planned Implementation:</b> By the end of 2007, the Branch will have a documented approach in the event a significant portion of the assessment base comes under appeal.</p> <p><b>Responsible Party:</b> Assessment and Taxation Management Team</p>

### 3.4. Performance Measures

#### Performance Measures

The recommendation from a previous audit in 2002 that related to performance measures for the Assessment Operations Section has not been completed. The 2002 recommendation was reported as follows:

<p><i>Improve staffing and scheduling of assessment activities through the development and use of productivity standards and a systems-management philosophy.</i></p>	<p><b>Accepted Target Date:</b> 2003-12-31  <b>Responsible Party:</b> Director of Assessment Operations. Currently under development and is subject to any changes that may come from the Province.</p>
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Although some progress has been made, the Branch has not yet developed appropriate productivity standards (performance measures and benchmarking). In addition, the existing performance measures used by the other business units have not been enhanced to adequately measure operating performance. Management has acknowledged that more work is required to develop performance measures but at this time the shortage of resources has resulted in a lower priority.

The Corporate Business Planning Department is currently developing a framework for corporate performance management and benchmarking. A proposed framework for measuring strategic initiative contributions towards Council vision outcomes has been presented for consideration by the City Senior Management Team. Additionally, the Corporate Business Planning Department is attempting to provide a framework for all departments to use in developing and using productivity standards for their operations. It is important to ensure that further performance measures development and benchmarking efforts within the Assessment and Taxation Branch meet the proposed criteria and framework.



**Annual Assessment Cycle**

Successful and timely completion of the annual assessment cycle is critical in order to meet deadlines that are required by legislation and timelines expected by the taxpayers. The annual assessment cycle includes all the processes performed by the Assessment and Taxation Branch to prepare and declare the tax roll, print the tax notices and collect taxes. These processes include coordinating duties performed by the Information Technology Branch, including the Digital Print Centre.

The Assessment and Taxation Branch produces timelines for the annual process with responsibility for each step assigned to a unit or section of the Branch or to the Information Technology Branch. While there is senior management oversight of the process, no one position leads the day to day activities associated with the overall annual process. The declaration of the tax roll and the printing of the assessment and tax notices are managed by several people. This has resulted in each unit/section focusing on its own activities rather than incorporating a comprehensive process view. This focus could lead to a greater risk of missing the statutory deadlines and possibly missing opportunities for efficiencies by coordinating activities. In addition, unexpected deviations to these timelines could jeopardize the compliance to legislative requirements, cause significant confusion and media attention, and delay the collection of taxes.

<b>Recommendation 6</b>	<b>Management Response and Action Plan</b>
<p>The OCA recommends that the Assessment and Taxation Branch assign a project leader with sufficient authority to manage the annual assessment cycle.</p>	<p><b>Comments:</b> Agreed - This role is currently carried out by the Director of Audit and Standards in conjunction with the Director of Taxation. The Director of Audit and Standards position is currently vacant. The Branch has had discussions about where this function should reside. The Branch will review the opportunities and options that may be available and an individual will be assigned to fulfill this role.</p> <p><b>Planned Implementation:</b> By end of 2007. The organizational chart will be reviewed to identify a position that will fulfill this role and augment the existing team that oversees this cycle.</p> <p><b>Responsible Party:</b> Assessment and Taxation Management Team</p>

## 4. Conclusions

Because of the highly legislated requirements of this Branch, a high degree of assurance is also being provided by third parties such as the external auditor, Alberta Municipal Affairs' annual and detailed (every five years) audits, and other studies. Based on this review, the OCA believes that the Assessment and Taxation Branch is delivering overall assessment and taxation services in an effective, efficient, and economical manner. However, there are opportunities to:

- Improve the workplace issues through workplace improvement initiatives
- Assign a position with sufficient authority to provide oversight to the annual assessment cycle to ensure that operations are being scheduled in an efficient manner and timelines continue to be met
- Develop effective performance measures to ensure that assessment and taxation services are delivered in a cost-effective manner.

The OCA thanks the management and staff of the Assessment and Taxation Branch for their cooperation and assistance during the audit.

# Appendix 1

## Objectives, Scope and Methodology

### Objectives

The primary objective of this Branch Audit is to provide assurance that Assessment and Taxation services are being delivered in an effective, efficient, and economical manner.

### Audit Criteria

Audit criteria are used to test whether the audit objective assertion is supported and to provide a framework for developing evidence to support recommendations. Audit criteria are always expressed in terms of what would be observed in an ideal organization. The criteria that were used in this audit are:

- Assessment and taxation activities are properly planned and monitored to ensure that operations are scheduled in an efficient manner and timelines are met.
- Effective performance measures are in place to ensure that assessment and taxation services are delivered in a cost-effective manner.

### Scope and Methodology

The methodology for this Branch Audit included three phases:

#### Planning

During the planning phase, all programs, services and functions of the Assessment and Taxation Branch were reviewed to ensure continued program relevance, to evaluate performance measurements, and to assess Management's risk awareness level. The OCA facilitated a number of sessions with Assessment and Taxation management and staff and gathered information from various stakeholders, including members of City Council, to gain a thorough understanding of the environment, management processes, current issues and concerns. A preliminary assessment was completed using criteria which included federal and provincial legislation, City Bylaws, City Policies and Administrative Directives. At the completion of the planning phase, the OCA held discussions with Management regarding the results and identified the areas where additional fieldwork would add the most value.

#### Fieldwork

During the fieldwork phase, the OCA assessed controls relied upon to achieve objectives such as those controls in place to ensure that activities are completed and timelines are in compliance with legislation. The fieldwork phase included more detailed testing and analysis of selected areas, benchmarking, and gathering of evidence to support development of recommendations.

## Reporting

The reporting phase included disclosure and discussion of the audit results with Management and coordination of Management's responses to recommendations.

## Scope

Based on the results of the planning phase, the scope of the fieldwork phase included the following:

- Information Technology (IT) Issues – An assessment of the effectiveness of the IT maintenance and development activities related to the TACS application was undertaken to determine its impact on the assessor workload and timelines. This review included review IT processes/issues such as staffing, availability, and experience.
- Staffing Issues – An assessment of issues relating to staff including training, retention, turnover, succession planning, ability to attract new staff, workload, etc.
- Performance Measures – Recommendations from the 2001 OCA audit relating to performance measures were followed-up.
- Other issues and opportunities for improvement such tax agents' role in appeals, completeness of tax roll, etc.

The following were not included this audit:

- Assessment Review Board (ARB) issues – these were documented and added to the OCA's future audit universe.
- 311 Call Centre – A full review of the 311 call centre is being performed at the corporate level.
- Issues dealt with in the *Report of the Property and Business Tax Structure Review Committee - September 27, 2005 which addressed issues of tax fairness and equity (including the concept of phased elimination or reduction of the business tax) (see Appendix 2)*.
- Areas to be included in the scheduled 2006-2007 Detailed Assessment Audit conducted on a five year cycle by Alberta Municipal Affairs, Assessment Services Branch. (see Appendix 3)
- Areas tested or issues raised by the external auditor where it has been determined by the OCA that this would be a duplication of efforts. (see Appendix 4)

## Appendix 2

### Summary of the Report of the Property and Business Tax Structure Review Committee

The Property and Business Tax Structure Review Committee was established by Edmonton City Council in December 2004 (Bylaw 13891) to:

- Review the tax differential between single family residential and multi-residential properties:
- Review the business tax as a separate source of revenue
- Make recommendations, if any, regarding property and business tax policies to ensure they are fair, equitable and competitive

In addition, Council requested that the Committee review the issue of a lower tax rate for cooperative housing and a special downtown business levy to fund local tourism promotion. A number of taxation and assessment issues were referred to the Committee from the City's Administration.

The committee was comprised of six representatives from the public and two Council members. The Committee issued a report to City Council dated September 27, 2005, which concluded:

- No redistribution of taxes between residential and non-residential properties is proposed at this time
- The advantages (simplicity, transparency, and efficiency) and disadvantages (shift in tax burden) of eliminating business tax was considered and more study was recommended
- A change to the City's current residential tax rate policy, under which multi-family rental properties are taxed at 20% higher than single family properties, would support the guiding principles of competitiveness, efficiency, and transparency and further encourage the development of affordable housing

In November 2005 City Council considered the recommendations and concluded that:

- Subject to the approval of funds during the 2006 Budget debate, Administration conduct a comprehensive study to look at different options of shifting of the business tax to the non-residential tax base or other options
- That the recommendation to increase the Planning and Development Department 2006 operating budget by \$125,000 for the purpose of conducting a comprehensive study regarding the phase out of business taxes be referred to the Council Budget meetings for consideration during the budget debate

- That a uniform tax rate for all residential properties be adopted and be phased in over a four-year period starting in 2006
- That Administration bring forward an amendment to the Business Licence Bylaw to eliminate the taxation of home-based businesses and collect as part of the Business Licence Fee to be effective for 2007

## Appendix 3

### Detailed Assessment Audits – Municipal Affairs

The Assessment Services Branch, Alberta Municipal Affairs, conducts a detailed assessment audit on all property types except for linear property in every municipality on a five-year cycle. The detailed assessment audit monitors whether assessments are prepared in accordance with legislation and regulations (Municipal Government Act) and consistently in relation to other municipalities.

The objective of the detailed assessment audit is to provide an unbiased opinion as to the quality of the Municipality's assessment roll. The opinion is based upon a review of the practices and procedures used in the administration of the municipality's assessment program in relation to the applicable legislation, best practice references and the audit procedures outlined in the Alberta Municipal Affairs' Detailed Assessment Audit Manual. The audit also provides the means to make recommendations to the municipality to improve assessment performance.

Detailed assessment audits address the following questions:

- Are the assessments of property prepared using the market value standard fair and equitable?
- Are assessments of regulated property prepared according to the Minister's Guidelines?
- Has the municipality and its designated assessor complied with legislation?
- Were assessment administration and valuation best practices followed?

The opinion of the 2001 detailed assessment audit was that *the 2001 assessment roll of the City of Edmonton meets or exceeds most of the standards with respect to legislated requirements and best assessment practices and procedures. This is notable given the number of properties and complexity of properties in the city and considering the transitional issues faced by the city in recent years as it moved to the market value standard.*

In the last quarter of 2006, the Assessment Services Branch, Alberta Municipal Affairs commenced another detailed assessment audit. The detailed assessment audit will combine the factual, results-oriented ratio study with the more investigative, process-oriented procedural audit to determine if assessments meet acceptable standards.

The procedural audits focus on how assessments are prepared and determine whether legislation requirements are met, valuation regulations are adhered to, appropriate manuals are used, and professional standards and guidelines are followed. It includes an in-depth statistical analysis by property groups (analysis categories) and sub-groups

(market areas) to develop a greater understanding of assessment performance than can be gained from the ratio studies performed in the annual audit program.

Ratio studies use statistical analysis of assessment and sales data as direct evidence of valuation accuracy and uniformity of properties assessed at market value. Ratio studies serve as the primary tool for the objective evaluation and measurement of mass appraisal performance.

To avoid a duplication of efforts, the OCA did not audit those areas that would be covered in the 2006 Detailed Assessment Audit being performed by the Assessment Services Branch, Alberta Municipal Affairs.

## Appendix 4

### Annual External Financial Audit

To avoid duplication of efforts during its audit, the OCA obtained access to the external auditors' working papers for the 2005 financial audit of the Assessment and Taxation Branch. The working papers were reviewed to determine the nature and extent of the testing performed by the external auditor. The testing performed by the external auditor included a determination of whether the tax revenues and related accounts were valid and complete. The testing they performed included tests to ensure that:

- All taxpayers are assessed and taxpayer information is input correctly
- Tax billings are accurately calculated and recorded using authorized assessment figures and authorized tax rates
- Recorded tax billings are agreed to total levy comparison to budgets
- Cash handling procedures related to the collection of taxes are adequate

The OCA reviewed the audit steps performed by the external auditor as well as the outcome of the testing. Where the outcome was indicated as being satisfactory, the OCA did not duplicate the tests.