



County of Allegheny

Office of the Controller

Allegheny County Office of Property Assessments
Analysis of Tax Abatements, Exemptions and Exclusions
For the Period
January 1, 2011 through December 31, 2011

(Non-Audit Service)

January 2, 2013

Chelsa Wagner
Controller

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December 4, 2012

Mr. Jerry Tyskiewicz
Director, Department of Administrative Services
Allegheny County
202 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Allegheny County Office of Property Assessments
Analysis of Tax Abatements, Exemptions and Exclusions
For the Period
January 1, 2011 through December 31, 2011

Dear Mr. Tyskiewicz :

The Controller's Office performed an analysis of Allegheny County's Office of Property Assessments (OPA) procedures for granting abatements, exemptions and exclusions to property owners. Our purpose was to determine if the processes were being applied in accordance with the regulations surrounding tax abatements, exemptions and exclusions. Our engagement was performed as a non-audit service. Therefore, our engagement was not performed in accordance with *Generally Accepted Government Auditing Standards*.

The results of our testing revealed that OPA needs to ensure that all tax abatements, exclusions and exemptions are being properly applied in accordance with the required regulations. In addition, we identified internal control deficiencies surrounding the processing of abatements, exemptions, and exclusions.

Accordingly, we recommend that the management of OPA undertake a reassessment of OPA's practices, with a focus on strengthening program management oversight, documentation and accountability. We believe the implementation of our recommendations will improve OPA's compliance with required regulations.



Mr. Jerry Tyskiewicz
December 4, 2012
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We would like to thank the management and staff of the Office of Property Assessments for their courtesy and cooperation during our engagement.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

CW/lc

cc: Honorable Charles Martoni, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, Allegheny County Executive
Mr. William McKain, County Manager, Allegheny County
Ms. Jennifer Liptak, Chief of Staff, County Executive
Mr. Warren Finkel, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Mr. Walter Szymanski, Budget Director, County Council

Introduction

Allegheny County's Office of Property Assessment (OPA) has been the subject of considerable public attention given the recently completed court-ordered property reassessment. In September, the Controller released her report on the latest reassessment and the OPA's contract with Tyler Technologies, Inc.

OPA is also responsible for administering property tax relief programs, commonly known as abatements, and granting exemptions from property tax for properties owned by charitable and other non-profit organizations. These functions were the subject of this report due to their significant fiscal impact at a time when the County cannot afford to leave any potential revenue on the table.

Overview

The **primary findings of this report** are that:

- OPA needs to improve the internal control structure, including updating the policies and procedures manual with clear identification of the individual responsible for final approval, of the property tax relief programs, especially the Homestead Exclusion, which has the most significant fiscal impact of all residential abatements;
- OPA provides inadequate accountability, transparency, and review when it comes to tax exemptions granted to non-profit and charitable organization; and
- OPA is reactive rather than proactive in ensuring accountability, transparency, and efficiency for tax exemptions.

Distinctions should be made between property tax relief programs for primary residences, such as the Homestead Exclusion, and exemptions which often grant complete property tax forgiveness. Both abatements and exemptions have a large revenue impact on Allegheny County's finances (see chart on page 4), and are in need of continual review and scrutiny.

Our report on OPA's procedures found that the internal control structure surrounding the tax-relief programs needs to be strengthened and properly followed. These programs provide significant property tax relief to County residents, especially homeowners. These abatements give important relief for at-risk populations, including low and middle income residents and the elderly.

A particular area of concern is the more than 26,000 properties exempt from taxation due to charitable organization, governmental, or disabled veteran status. OPA was unable to provide the details of their process to complete the three year review of exempt properties, as mandated in Administrative Code Section 5-210.12. Our report also found less than adequate record keeping for exemptions. Non-profit property tax exemptions are subject to little review or scrutiny by OPA and their records are poorly maintained. County residents would benefit from tax exemptions being held to the same, or an even higher, level of scrutiny and proper administration as the Homestead Exclusion and other property tax

Executive Summary

relief programs. While deserved abatements and exemptions provide important incentives to desirable investments in our communities, every improperly applied exemption or abatement places additional, undue property tax burden on County residents.

The more than \$16 billion in property receiving these constitutional exemptions must receive closer, regular examination and OPA must improve its maintenance of these records and the availability of them to the general public and local governments. If just two percent of the value of exemptions was recovered through challenges, the County could recover over \$1.5 million in revenue.

Additionally, local taxing bodies and the public must have improved access to records on property tax exemptions and abatements. These should be easily accessible in an online searchable database. Improved record-keeping would also allow the County to more easily identify and remedy cases of properties receiving improper or undue exemptions or abatements. Improved technology and accessibility will allow OPA to provide greater transparency and accountability for exemptions.

This chart includes the estimated reduction to annual revenue for each abatement and exemption program based on information provided by the OPA and the Department of Computer Services.

Program	# Properties	Value of Property	Total Revenue Reduction
Constitutional Tax Exemptions	26,598	\$ 16,639,222,580	\$ 78,037,954
Tax Relief Programs:			
Act 50 -Homestead	317,522	4,762,830,000	22,337,673
Act 202 County - New Home	1,634	324,417,134	1,521,516
Act 156 - Clean and Green	1,349	107,030,330	501,972
Act 76 - LERTA	29	91,453,796	428,918
Act 42 City - New Home	299	24,579,450	115,278
Act 42 City - Home Improvement	21	589,781	2,766
Act 42 County - Home Improvement	11	161,209	756
Act 132 - Residential Visitability	5	N/A*	Note
Catastrophic Loss	25	Note	Note
TOTAL	347,493	\$ 21,950,284,280	\$ 102,946,833

Note: OPA maintains applications for the Act 132 and Catastrophic Loss programs. However, these result in a tax credit issued by the Treasurer's Office. Any information maintained by the Treasurer is not included in the chart above.

Results in Brief

Finding #1: A Comprehensive Process Should Be Established to Better and More Actively Track, Catalog, and Review Tax Exemptions and Abatements

Our testing revealed that OPA:

- Could not locate 21 of the 141 files initially requested for our testing.
 - The abated value for these 21 missing files totaled approximately \$16.2 million while the resulting tax impact of these abatements is approximately \$76,156.
- Could not provide the applications for 27 of the 358 properties tested.
- Could not provide the original resolution enacted by the County for the New Home Construction/Improvement Program.
- Have policies and procedures that are outdated and incomplete.
- Coded improperly 11 of 25 tested properties listed as owned by a corporation but when tested had an incorrect owner code.
- Does not charge penalties, interest or back taxes to property owners who should not have received the Homestead exclusion.

Additional Observation:

- We also inquired with OPA on the comprehensive review of all exempt properties required by the Administrative Code Section 5-210.12. OPA indicated that the last review was this year during the reassessment, and that they were in the process of conducting a procedure to do the three year review when the reassessment was ordered. However, OPA did not remove any parcels from exempt status during such review. They stated that is done via a taxation challenge. We inquired further with OPA regarding the procedures they used to review the exempt properties, but OPA did not provide an explanation or any supporting documentation.

Recommendations: The Controller's Office recommends that OPA:

1. **Improve holistically the system by which the County administers and reviews tax exemptions for non-profit and charitable organizations.** The accountability required for these properties is inadequate. In June 2012, the Controller issued a wide-ranging report on the financial impact of these tax exemptions. In that report, the Controller made concrete recommendations to achieve these goals. Our testing in this report affirms the need for these improvements, including the need for OPA and the County to:
 - a) **Require every organization seeking a tax exemption to show annually with a standardized affidavit, created by OPA, that it meets the requirements of state law.** By creating this requirement, the onus for justifying the exemption is placed on the property owner and would enable OPA to have more resources to challenge exemptions. **These records should be posted online for the public to view.**
 - b) **Conduct a parcel-by-parcel review** to identify exemptions that could be challenged.

Executive Summary

- c) **Work with municipalities and school districts to challenge exemptions that do not meet state requirements.** OPA should partner with the County Solicitor and County Manager to coordinate this outreach to local governments. Local governments and school districts have limited resources on their own to challenge exemptions that sometimes have substantial impact on their tax rolls.
 - d) **Better document and classify exempt properties and make this information available to taxpayers for free online.**
2. **Reinstitute the ability for the public to search for properties by Owner Name.** This should be done immediately for Commercial properties. We acknowledge that some considerations should be made for residential properties of certain at-risk individuals, including the judiciary and law enforcement, but this search function should at the very least be made available to local governments. OPA should establish a form for these at-risk individuals to submit in order to have their identifying information redacted.
 3. **Implement the use of an electronic database for maintaining documentation** for all parcels that have been approved for an abatement, exemption, and exclusion to ensure they are properly substantiated.
 4. **Conduct an examination of parcels that have been approved for abatements, exemptions and exclusions to ensure that documentation exists to support the validity of the abatement.** If documentation cannot be located, OPA should immediately request the appropriate documentation from the property owner.
 5. **Maintain applications and all required supporting documentation in an electronic database in order to provide a meaningful audit trail.** Missing documentation could lead to ineligible property owners receiving abatements, exemptions, or exclusions. OPA should review all Homestead Exclusions to ensure all applications are maintained by OPA. A new application should be mailed out to homeowners if it is currently not maintained by OPA.
 6. **Review Homestead Reports from OPA's Integrated Assessment System (IAS) on a more consistent and comprehensive basis in an attempt to capture all improperly applied exclusions.** OPA should begin to maintain proper documentation that would enable an outside party to come in and recreate/verify work performed.
 7. **Enforce the current procedures regarding the recovery of back taxes, penalty, and interest from properties owners who have submitted application with false information or who have not properly notified OPA of any required changes.** OPA should also adjust the Homestead Exclusion application so that a property owner has limited opportunity to submit a fraudulent application. This could include requiring proof of residency such as place of employment, school location of dependents, driver license, voter registration, utility bills, etc.
 8. **Provide a list of Homestead Abatement violations to the appropriate enforcement agency for collection.** If an enforcement agency is not identified, request County Council to amend the Administrative Code as to identify an agency.
 9. **Hire a Chief Assessment Officer** to ensure these recommendations are properly implemented.

Executive Summary

Finding #2: Most Property Tax Relief Programs' Internal Controls Should Be Strengthened and Properly Followed

Our testing revealed that 51 (14%) of the 358 properties tested had incorrectly received an abatement or exemption for tax year 2011. These deficiencies did result in lost tax revenue to the County totaling \$16,280. Specifically, of the 358 properties tested:

- 46 of 181 (25%) properties tested had Act 50 Homestead/Farmstead exclusions that had been improperly granted by OPA. This resulted in \$3,236 of lost tax revenue.
- One of 25 (4%) properties tested received the ACT 202 New Construction abatement although procedures were not properly followed.
- One of five (20%) properties tested received the Act 42 County Home Improvements abatement although procedures were not properly followed.
- One of ten (10%) properties tested had received the Act 42 City Home Improvements abatement although procedures were not properly followed.
- One of ten (10%) properties tested had received the incorrect Act 76 LERTA abatement amount.
- One of 62 (2%) properties tested received an improper exemption. This resulted in \$2,119 of lost tax revenue.

The chart below documents the overall number of properties tested.

Tax Program	Properties Tested	Abatements	
		Incorrect Applied	%
Act 50 -Homestead	181	46	25%
Act 202 County - New Home	25	1	4%
Act 42 County - Home Improvement	5	1	20%
Act 42 City - Home Improvement	10	1	10%
Act 76 - LERTA Exemptions	10	1	10%
Act 42 City - New Home	62	1	2%
Act 156 - Clean and Green	26	-	-
Act 132 - Residential	25	-	-
Visitability	5	-	-
Catastrophic Loss	9	-	-
TOTAL TESTED	358	51	14%

Executive Summary

Recommendations:

Certain internal controls should be strengthened to prevent future issues and consistently ensure fairness. Therefore, the Controller's Office recommends that OPA:

1. **Review the rules and regulations associated with each abatement, exemption, or exclusion** to ensure that the applications submitted are complete and accurate.
2. **Institute review procedures, for all properties that have already been granted an abatement, exclusion or exemption, to ensure that property owners still meet eligibility requirements for these abatements.** If these procedures find that a property owner is not eligible, remove the abatement, exclusion or exemption, and properly notify the owner and all necessary entities.
3. **Strengthen applications for abatements and exemptions** by adding more unique identifying information (e.g. last four digits of a Social Security Number or tax ID number) to better prevent abuse and make future reviews more comprehensive and effective.

I. Introduction

Allegheny County offers several abatements, exemptions, and exclusions that may reduce the county tax bill received annually by property owners. The term "Abatement" means to lower the amount or rate of something such as the assessment value of property for a certain time period. The term "Exclusion" means to exclude or leave out. An "Exemption" means that a property is exempt from being taxed. A brief explanation of each of these tax programs is provided below.

Act 50 – Homestead / Farmstead Exclusion (Homestead Exclusion)

Applications for the Homestead Exclusion are due by March 1 of each applicable tax year. To qualify for the exclusion, the taxpayer must be the primary owner and occupier of a residence. The exclusion cannot be applied to multiple properties owned by the same taxpayer, as only one residence can be claimed as a primary residence. Taxpayers need only to complete an application once, unless a deed change, change of use, or sale occurs.

The Homestead and Farmstead exclusions were adopted by Allegheny County effective January 1, 2003 pursuant to Pennsylvania Act 50 of 1998. Under the exclusions, eligible homeowners may have the assessed value of their home reduced by \$15,000 for county tax purposes. The reduction amount was raised from \$10,000 to \$15,000 in December 2003.

Act 202 County – New Home, Act 42 County – Home Improvement, Act 42 City – New Home, Act 42 City – Home Improvement Abatement

There are several components to the New Home/Home Improvement abatement programs. Allegheny County adopted the Act 202 County – New Home and the Act 42 County – Home Improvement abatements in 1996 pursuant to Pennsylvania Act 202 and Act 42. In addition, Allegheny County will abate the County taxes for City of Pittsburgh homeowners who file under the Act 42 City – New Home and Act 42 City - Home Improvement programs. The abatement amounts and time frames are as follows:

- The amount of the abatement for Act 202 County – New Home will be up to the improved value of the new home constructed and is granted for up to the first two years after completion of construction.
- The Act 42 City – New Home program caps the abatement for new construction at \$86,750 for a period up to three years.
- The County and City Act 42 – Home Improvement abatement is capped at the first \$36,009 of improvements to existing homes for up to the first three years after improvement.

These abatements are currently set to expire December 31, 2013.

Act 156 – Clean and Green Abatement

Allegheny County will grant preferential assessments for tax purposes to property devoted to agricultural use, agricultural reserve use, or forest reserve use in order for the property

I. Introduction

to be valued at its use value, instead of market value. The Pennsylvania Farmland and Forest Land Assessment Act of 1974, amended by Act 156 of 1998 is better known as the Clean and Green Act. The eligibility requirements vary depending on the use category of the property. Applications for a Clean and Green abatement must be postmarked by June 1 in order to be effective for the next calendar tax year. Provisions are also in place if the use of the property is changed.

Act 132 – Residential Visitability Tax Credit

In 2006 Act 132 was signed into law, providing special tax provisions related to the construction or renovation of a dwelling containing visitability design features which serve to enhance the usability of the dwelling for persons with significant mobility impairment. In Allegheny County, the tax credit is limited to the lesser of \$2,500 over a five year period or the total amount of all increases in taxes levied by the County as a result of the eligible construction or renovation.

Act 76 – LERTA Abatement

The purpose of the LERTA (Local Economic Revitalization Tax Assistance) Act is to encourage commercial and industrial business in municipalities throughout Allegheny County. The abatement is limited to the actual cost of improvements or a maximum cost uniformly established by the County. The length of time that the taxes will be abated is limited to ten years. The County does not participate in all municipalities, and usually the LERTA ordinances cover only a limited and specific area of the municipality. Applications are due to the municipality.

Catastrophic Loss

Property owners whose homes have been damaged by a fire or other natural disaster are eligible for a reduction in the property's assessment if the fire or disaster results in a reduction of real property value by 50% or more. An application must be completed within six months from the date the catastrophic loss occurred and all supporting documentation must be attached.

Exemptions

In accordance with the Allegheny County Administrative Code, properties requesting exemption from real property taxation must have an application postmarked on or before March 31 of the year requesting exemption. The property must also be owned by the exempt entity on January 1st of the year requesting exemption. Exemptions from real property taxation are authorized by state law for: churches, burial grounds, hospitals, educational institutions, fire stations, courthouses, jails, public parks for public use and other public property used for public purposes. Any organization seeking exemption must prove its entitlement to that exemption.

I. Introduction

Abatement, Exemption, and Exclusion Summary

The chart includes the estimated annual tax reduction as of December 31, 2011 based on information provided by the Office of Property Assessment (OPA) and the Department of Computer Services (DCS).

Program	# Properties	Value of Property	Total Revenue Reduction
Constitutional Tax Exemptions	26,598	\$ 16,639,222,580	\$ 78,037,954
Tax Relief Programs:			
Act 50 -Homestead	317,522	4,762,830,000	22,337,673
Act 202 County – New Home	1,634	324,417,134	1,521,516
Act 156 – Clean and Green	1,349	107,030,330	501,972
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Act 42 County – Home Improvement	11	161,209	756
Act 132 – Residential Visitability	5	<i>N/A*</i>	<i>Note</i>
Catastrophic Loss	25	<i>Note</i>	<i>Note</i>
TOTAL	347,493	\$ 21,950,284,280	\$ 102,946,833

Note: OPA maintains applications for the Act 132 and Catastrophic Loss programs. However, these result in a tax credit issued by the Treasurer's Office. Any information maintained by the Treasurer is not included in the chart above.

II. Scope and Methodology

We evaluated the processes and procedures surrounding the administration of Allegheny County's property tax abatements, exemptions and exclusions (the programs) and its compliance with applicable laws and regulations as of December 31, 2011. Specifically, we performed the following:

- Interviewed Office of Property Assessment (OPA) personnel to gain an understanding of the programs and processes for each of the programs.
- Reviewed applicable state and county laws and regulations and OPA's policies and procedures relating to each of the programs.
- Estimated the impact the programs had on Allegheny County taxes for 2011 based on records provided by OPA and the Department of Computer Services (DCS).
- Analyzed the records provided for the Homestead exclusion to identify areas of concern, and reviewed applications and supporting documentation for selected properties in those areas. Specifically, we selected several properties receiving the Homestead exclusion that were coded as vacant land, commercial use and corporate owners. We also tested properties with duplicate parcel IDs, duplicate owners, and out of state owners.
- Selected a sample of files supporting each of the other abatements, exemptions and exclusions to ensure compliance with eligibility and documentation requirements.
- Estimated the taxes lost by Allegheny County as a result of improperly applied abatements, exemptions, and exclusions.

We conducted our procedures during March and June through July 2012. We provided a draft copy of this report for comment to the Deputy County Manager. His response begins on page 22.

III. Findings and Recommendations

Finding #1

A Comprehensive Process Should Be Established to Better and More Actively Track, Catalog, and Review Tax Exemptions and Abatements

During our testing, we identified internal control deficiencies surrounding the processing of abatements, exemptions, and exclusions.

MISSING FILES, APPLICATIONS AND INSUFFICIENT DOCUMENTATION

Missing Files

Overall, we requested 141 files for our testing (not including the Homestead applications, since these are maintained in an electronic database). OPA could not locate 21 of these 141 files (15%). According to OPA personnel, most of these files have been sent to the North Shore for storage. Due to an inadequate filing system, the files cannot be located. The following is a breakdown of the missing files by program:

Program	# of Files Not Found	Approximate Abated Value	Approximate Tax Impact
Act 42 City – New Home	2	\$ 173,500	\$ 814
Act 156 – Clean and Green	4	2,669,800	12,521
Catastrophic Loss	1	12,053	56
Exemptions	<u>14</u>	<u>13,382,700</u>	<u>62,765</u>
	21	\$ 16,238,053	\$ 76,156

Since OPA could not provide these files, it cannot be determined if the abatement, exemption, or exclusion is valid. This is particularly concerning for the Exempt and Clean and Green properties, since these remain on a property indefinitely. Typically, a property is only removed from exempt status through a tax challenge or due to a change such as transfer of ownership, new lot plan, or change in qualifying use. The Clean and Green abatement typically remains on a property until the owner opts out, or the property is split or sold.

Since OPA did not provide all of the requested files, we selected an additional 57 files from those on site at OPA to replace the files that OPA could not locate. The total population used for our testing is 358.

Files Originally Requested	141
Less: Missing Files	(21)
Plus: Additional Files Requested	<u>57</u>
Subtotal	177
Plus: Homestead Application	<u>181</u>
TOTAL TESTED	<u><u>358</u></u>

III. Findings and Recommendations

Missing Applications

During our testing of OPA's files and the electronic database, we verified that an application was maintained for each of the properties tested. OPA could not provide the application for 27 of the 358 (8%) properties tested.

<u>Number of Missing Applications By</u>	
<u>Program</u>	
Act 50 -Homestead	24
Act 156 – Clean and Green	<u>3</u>
	<u>27</u>

Insufficient Documentation

We also found that OPA is not maintaining proper documentation to support certain abatements and exclusions.

During our testing of the Homestead applications, we found certain properties that may not be eligible for the exclusion. Specifically, properties were coded in IAS as a commercial property or the zip code for the property differed from that of the change notice. We discussed these concerns with OPA personnel. OPA staff indicated that they verified that the property was eligible for the exclusion. However, there is no formal documentation of the procedures performed.

In addition, OPA's policies and procedures require assessors to take pictures in the field to document the damage to the property and complete the assessor worksheet to document their review of the property for all Catastrophic Loss applications. Our testing found that 5 of 9 (56%) files did not contain any pictures and 1 of the 9 files (11%) did not contain the assessor worksheet.

We also requested the original New Home Construction/Improvement Program Resolution enacted by the County in May 1996. OPA could not provide this original resolution and referred us to the County Executive's Office. The County Executive's could not locate the original resolution either.

INADEQUATE REVIEW OF EXEMPT PROPERTIES

We also discussed the comprehensive review of all exempt properties required by the Administrative Code Section 5-210.12 with OPA personnel. OPA indicated that the last review was this year during the reassessment, and that they were in the process of conducting a procedure to do the three year review when the reassessment was ordered. However, OPA did not remove any parcels from exempt status during such review. They stated that is done via a taxation challenge. We inquired further with OPA regarding the

III. Findings and Recommendations

procedures they used to review the exempt properties, but OPA did not provide an explanation or any supporting documentation.

OUTDATED POLICIES AND PROCEDURES

Policies and procedures related to the abatements, exemptions, and exclusions need to be kept current in order to ensure applications for these tax programs are properly reviewed, processed, approved, and maintained. The policies and procedures provided to us by OPA have not been updated since 2005. Furthermore, OPA does not have policies and procedures for the Act 42 County - Home Improvement program or the Act 132 Residential Visitability program.

We also noted that the policies and procedures for one of the programs do not coincide with the actual practices of OPA. According to information on the Act 42 City – New Home program, applications must be submitted within 180 days of issuance of the building permit. During our testing of the files for the program, we noted that 5 of 26 (19%) applications tested were not submitted within 180 days of the building permit. According to OPA personnel, if the homeowner purchased the property from the builder, OPA will grant the abatement as long as the application is received by the date of closing on the property. The City has never questioned OPA on this practice. Because the City is involved in the program, OPA needs to work with the City to ensure all policies and procedures as well as public information reflect the actual practices at OPA.

INCORRECT CODING

As noted above, we found certain properties with the Homestead exclusion applied that may not be eligible for the Exclusion, based on codes assigned to the property. We tested 25 properties that were coded as having a corporate owner. Further analysis found that 11 of the 25 (44%) properties tested had an incorrect owner code. If OPA personnel are reviewing properties with certain characteristics, incorrect coding can lead to unnecessary work.

PENALTY NOT CHARGED TO HOMEOWNERS

The application instructions for the Homestead Exclusion state that “The assessor may select, randomly or otherwise, applications to review for false or fraudulent information. Any person who files an application which contains false information, or who does not notify the assessor of a change in use which no longer qualifies as homestead or farmstead property will be required to: Pay the taxes which would have been due but for the false application, plus interest. Pay a penalty equal to 10% of the unpaid taxes. If convicted of filing a false application, be guilty of a misdemeanor of the third degree and be sentenced to pay a fine not exceeding \$2,500.”

As documented in Finding #2, our testing found 46 properties had been improperly granted the Homestead exclusion. According to OPA personnel, if OPA finds that the Homestead exclusion should not be applied to a property, even if it is due to a fraudulent

III. Findings and Recommendations

application, OPA will remove the exclusion, but will not assess any back taxes, penalty, or interest.

Recommendations: The Controller's Office recommends that OPA:

1. **Improve holistically the system by which the County administers and reviews tax exemptions for non-profit and charitable organizations.** The accountability required for these properties is inadequate. In June 2012, the Controller issued a wide-ranging report on the financial impact of these tax exemptions. In that report, the Controller made concrete recommendations to achieve these goals. Our testing in this report affirms the need for these improvements, including the need for OPA and the County to:
 - a) **Require every organization seeking a tax exemption to show annually with a standardized affidavit, created by OPA, that it meets the requirements of state law.** By creating this requirement, the onus for justifying the exemption is placed on the property owner and would enable OPA to have more resources to challenge exemptions. **These records should be posted online for the public to view.**
 - b) **Conduct a parcel-by-parcel review** to identify exemptions that could be challenged.
 - c) **Work with municipalities and school districts to challenge exemptions that do not meet state requirements.** OPA should partner with the County Solicitor and County Manager to coordinate this outreach to local governments. Local governments and school districts have limited resources on their own to challenge exemptions that sometimes have substantial impact on their tax rolls.
 - d) **Better document and classify exempt properties and make this information available to taxpayers for free online.**
2. **Reinstitute the ability for the public to search for properties by Owner Name.** This should be done immediately for Commercial properties. We acknowledge that some considerations should be made for residential properties of certain at-risk individuals, including the judiciary and law enforcement, but this search function should at the very least be made available to local governments. OPA should establish a form for these at-risk individuals to submit in order to have their identifying information redacted.
3. **Implement the use of an electronic database for maintaining documentation** for all parcels that have been approved for an abatement, exemption, and exclusion to ensure they are properly substantiated.
4. **Conduct an examination of parcels that have been approved for abatements, exemptions and exclusions to ensure that documentation exists to support the validity of the abatement.** If documentation cannot be located, OPA should immediately request the appropriate documentation from the property owner.
5. **Maintain applications and all required supporting documentation in an electronic database in order to provide a meaningful audit trail.** Missing

III. Findings and Recommendations

documentation could lead to ineligible property owners receiving abatements, exemptions, or exclusions. OPA should review all Homestead Exclusions to ensure all applications are maintained by OPA. A new application should be mailed out to homeowners if it is currently not maintained by OPA.

6. **Review Homestead Reports from OPA's Integrated Assessment System (IAS) on a more consistent and comprehensive basis in an attempt to capture all improperly applied exclusions.** OPA should begin to maintain proper documentation that would enable an outside party to come in and recreate/verify work performed.
7. **Enforce the current procedures regarding the recovery of back taxes, penalty, and interest from properties owners who have submitted application with false information or who have not properly notified OPA of any required changes.** OPA should also adjust the Homestead Exclusion application so that a property owner has limited opportunity to submit a fraudulent application. This could include requiring proof of residency such as place of employment, school location of dependents, driver license, voter registration, utility bills, etc.
8. **Provide a list of Homestead Abatement violations to the appropriate enforcement agency for collection.** If an enforcement agency is not identified, request County Council to amend the Administrative Code as to identify an agency.
9. **Hire a Chief Assessment Officer** to ensure these recommendations are properly implemented.

III. Findings and Recommendations

Finding #2

Most Property Tax Relief Programs' Internal Controls Should Be Strengthened and Properly Followed

OPA receives the applications for the programs, reviews them, and ultimately approves or denies it. The specific review procedures vary based on the program, but generally OPA determines if the information provided on the application is in compliance with the program requirements. For many programs, an assessor will also need to visit or inspect the property to determine eligibility.

The Controller's office requested and received an excel file for each of the ten programs (See the Introduction for a description of the programs) listing information on each parcel receiving the abatement, exemption, or exclusion as of December 31, 2011. We selected properties from each of the programs and requested the program file for each parcel, with the exception of the Homestead exclusion. Since homeowners are not required to submit any documentation with the Homestead application, OPA does not maintain a separate file for each Homestead property. Applications for the Homestead exclusions are maintained in an electronic database. Therefore, we reviewed the electronic application for the Homestead exclusion.

We reviewed 358 files or electronic applications for the ten programs to ensure supporting documentation and applications were properly maintained, and that the abatement or exemption was properly granted. Our testing found that 51 (14%) of the 358 properties tested had incorrectly received an abatement or exemption for tax year 2011. Our results are summarized as follows:

- Our testing revealed that 46 of the 181 (25%) properties tested had Act 50 Homestead/Farmstead exclusions that had been improperly granted by the Office of Property Assessments.

We analyzed the excel file provided by OPA and identified certain groups of properties that may not be eligible for the exclusion. For instance, these properties were coded as vacant land, commercial use, or as having a corporate owner, or there were multiple occurrences of the same owner name, or the zip code for the property differed from that of the change notice. Our testing of these properties receiving the Homestead/Farmstead exclusion revealed that 46 properties have improperly applied exclusions. These 46 properties resulted in \$3,236 that the County lost in tax revenue for 2011 due to OPA's error.

- Our testing revealed that one of the 25 (4%) properties tested had received the Act 202 New Construction abatement although procedures were not properly followed.

OPA requires that Act 202 applications must be filed by the property owner with OPA before the occupancy permit is issued. Our testing revealed that this property

III. Findings and Recommendations

received the abatement even though the application for this property was filed after the occupancy permit was issued.

- Our testing revealed that one of the five (20%) properties tested had received the Act 42 County Home Improvements abatement although procedures were not properly followed.

OPA requires that Act 42 applications must be filed by the property owner before the occupancy permit is issued. We noted that the occupancy permit for this property was not included in the file. Although we cannot compare the application date to the occupancy permit date, we noted that the application was submitted a month and a half after the improvement had been assigned a value in OPA's Integrated Assessment System (IAS). Therefore, this suggests that the application was not filed timely.

- Our testing revealed that one of the ten (10%) properties tested had received the Act 42 City Home Improvements abatement although procedures were not properly followed.

An occupancy permit must be submitted to OPA prior to approval of the abatement. Our testing revealed that an occupancy permit was not maintained in the file.

- Our testing revealed that one of the ten (10%) properties tested had received the incorrect Act 76 LERTA abatement amount.

Under the County Code, there is a maximum tax benefit of \$100,000 a year. Our testing found that for one of the properties, the calculation prepared by OPA resulted in a tax benefit of more than \$100,000 per year. OPA abated an additional \$505,639 in property value for years 1 and 2 and an additional \$455,075 in property value for years 3 and 4. This resulted in \$9,011 of unbilled taxes. We brought this to OPA's attention and OPA then adjusted the calculation so that the tax benefit did not exceed the maximum \$100,000 amount. In addition, the Treasurer's Office has generated a new tax bill to recover the unpaid taxes.

- Our testing revealed that one of the 62 (2%) properties tested received an improper exemption.

Although OPA sent the property owner a denial letter, the property was inadvertently approved and coded as exempt in the system for tax year 2011. This resulted in \$2,119 of lost tax revenue.

Our testing also included 65 properties under these four programs: Act 42 City – New Home, Act 156 – Clean and Green, Act 132 – Residential Visitability, and Catastrophic Loss programs. Our testing found that the abatements or exclusions for the selected properties appear to be properly applied.

III. Findings and Recommendations

The charts below document the overall number of properties tested and a calculation of estimated tax revenue lost due to abatements, exemptions, and exclusions being improperly granted to property owners.

Tax Program	Properties Tested	Abatements	
		Incorrect Applied	%
Act 50 -Homestead	181	46	25%
Act 202 County – New Home	25	1	4%
Act 42 County – Home Improvement	5	1	20%
Act 42 City - Home Improvement	10	1	10%
Act 76 – LERTA	10	1	10%
Exemptions	62	1	2%
Act 42 City – New Home	26	-	-
Act 156 – Clean and Green	25	-	-
Act 132 – Residential			
Visitability	5	-	-
Catastrophic Loss	9	-	-
TOTAL TESTED	358	51	14%

Tax Program	Value Improperly Abated, Exempted, or Excluded per Year	Tax Year(s)	Taxes For 2011	Taxes For Other Years	Total Taxes Lost
Act 50 -Homestead	46 at \$15,000 each	2011	\$ 3,236	\$ -	\$ 3,236
Act 202 County – New Home	\$140,500	2010 and 2011	659	659	1,318
Act 42 County – Home Improvement	\$17,900	2010 and 2011	84	84	168
Act 42 City - Home Improvement	\$30,400	2009, 2010, 2011	143	285	428
Act 76 – LERTA	\$505,639 - Years 1 & 2	2008 and 2009			
	\$455,075 - Years 3 & 4	2010 and 2011	2,134	6,877	9,011
Exemptions	\$451,800	2011	2,119	-	2,119
TOTAL TAX REVENUE LOST			\$ 8,375	\$ 7,905	\$16,280

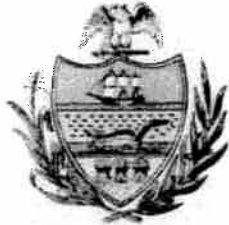
III. Findings and Recommendations

Overall, 51 (14%) properties out of the 358 properties tested received an improper abatement, exemption, or exclusion. These deficiencies resulted in lost tax revenue to the County of \$16,280.

Recommendations: The Controller's Office recommends that OPA:

1. **Review the rules and regulations associated with each abatement, exemption, or exclusion** to ensure that the applications submitted are complete and accurate.
2. **Institute review procedures, for all properties that have already been granted an abatement, exclusion or exemption, to ensure that property owners still meet eligibility requirements for these abatements.** If these procedures find that a property owner is not eligible, remove the abatement, exclusion or exemption, and properly notify the owner and all necessary entities.
3. **Strengthen applications for abatements and exemptions** by adding more unique identifying information (e.g. last four digits of a Social Security Number or tax ID number) to better prevent abuse and make future reviews more comprehensive and effective.

COUNTY OF



ALLEGHENY

RICH FITZGERALD
COUNTY EXECUTIVE

December 12, 2012

The Honorable Chelsa Wagner
Office of the County Controller
104 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

RE: Response to Controller's "Analysis of Tax Abatement Exceptions and Exclusions for the period January 1, 2011 through December 31, 2011."

Controller Wagner:

Thank you for the opportunity to respond to the above referenced analysis of tax abatement exceptions and exclusions for the period January 1, 2011 through December 31, 2011.

As you are likely aware, I started in the position of Director of Administrative Services on December 3, 2012. During the interview process, as well as in the directive that I received from the County Manager and the County Executive, it was made clear to me that addressing some of the challenges within the Office of Property Assessments (OPA) was a priority. Many of those items dovetail with the information in your analysis. I appreciate the confirmation.

1. **A Comprehensive Process Should Be Established to Better and More Actively Track, Catalog and Review Tax Exemptions and Abatements.**

In 2013, OPA will initiate its triennial review of tax exempt properties as required by Ordinance 49-07-OR, enacted in 2007. As part of this review, OPA will take the appropriate steps to categorize and memorialize the information submitted by the applicants, as well as archiving when appropriate.

The search by owner function of the reassessment website was removed pursuant to Ordinance 48-07-OR. Based on the language of the ordinance, that step was taken because a study of counties within the Commonwealth of Pennsylvania and various metropolitan regions throughout the United States indicate that few jurisdictions allow for computerized access to property data via owner name searches. Additionally, the ordinance provides that the website was created as a vehicle to allow public access to real property data for the purposes of structural and valuation comparison, rather than as a means to determine individual residences. Without any amendment of that ordinance, we will continue to abide by its provisions.

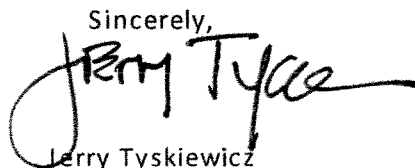
OPA remains willing to work with municipalities and school districts for any matter related to assessments and tax abatements.

OPA has recently begun an organizational restructuring and I expect that there will be further changes that will allow us to reach our goals of improving practices and addressing deficiencies. We will also continue to study and evaluate our system and processes to determine and exemplify best practices.

2. **Most Property Tax Relief Programs Internal Controls Should Be Strengthened and Properly Followed.**

I believe that internal controls can always be strengthened in all organizations. Management is primarily responsible for designing, implementing, monitoring and reporting on controls and effective internal controls, and that continues to be a top management priority. That being said, internal controls are essential, but not foolproof. Costs should not exceed benefits and no control structure can absolutely prevent all fraud, abuse and irregularities. Our approach is to establish sound policies, efficient procedures and continually strengthen controls that reduce these risks. We will continue to develop and monitor internal controls as this process is an ongoing one. The office accepts and embraces the challenge to protect, properly manage and be accountable for the resources in its care.

Finally, I thank your staff for the professional and diligent manner in which they conducted this audit.

Sincerely,

Jerry Tyskiewicz

cc: The Honorable Rich Fitzgerald, Allegheny County Executive
The Honorable Charles Martoni, President – Allegheny County Council
The Honorable Nicholas Futules, Vice-President – Allegheny County Council
Mr. William McKain, Allegheny County Manager
Ms. Jennifer Liptak, Chief of Staff – Allegheny County Executive
Mr. Steve Pilarski, Allegheny County Deputy County Manager
Mr. Warren Finkel, Director – Allegheny County Department of Budget & Finance
Mr. Walter Szymanski, Budget Director – Allegheny County Council
Mr. Joseph Catanese, Constituent Services Director – Allegheny County Council
✓Ms. Lori A. Churilla, Assistant Deputy Controller, Auditing