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Cover photo by Denver Auditor’s Office staff.
February 4, 2021

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits. The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

In our follow-up effort for the “Property Tax Assessment Process” audit report issued in October 2019, we determined the Department of Finance fully implemented only two of 10 recommendations we made in the original audit report. We did not update the status of the two recommendations the Department of Finance disagreed with, as the department presumably would not have taken action toward implementing those; however, these recommendations are included in the status update section as a reference.

Consequently, several risks associated with the audit team’s initial findings have not been fully mitigated. The Audit Services Division may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

I would like to express our sincere appreciation to the personnel in the Department of Finance who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Property Tax Assessment Process
February 2021

Objective

1. To determine whether the city’s policies and procedures related to the property tax assessment process are effective to ensure compliance with regulations and promote data accuracy and completeness.

2. To examine whether the current tax-increment financing law should be amended to permit adjustments to the base level when an exempt property is converted to a nonexempt property to allow for the timely recovery of infrastructure costs incurred by the city.

3. To analyze whether the city is recovering the costs of services associated with the assessment and collection of property taxes on behalf of third-party entities, such as Denver Public Schools, the Denver Urban Renewal Authority, and other special districts.

Background

The property tax assessment process is outlined within and regulated by state law as well as the state’s Assessors’ Reference Library. Property tax assessment includes appraisal and classification, exemptions, and taxation of real and personal property. The assessment process is driven by the city’s Department of Finance.

REPORT HIGHLIGHTS

Highlights from Original Audit

In our first audit of the city’s property tax assessment process, we identified controls and processes that needed improvement to promote appropriate accounting practices, compliance with state law and regulations, and to protect the integrity of property tax assessment data.

The City Incorrectly Recorded and Reported the State Reimbursement for the Senior and Disabled Veteran Property Tax Exemptions

State reimbursements were recorded and reported as property tax revenue rather than “government-mandated nonexchange revenues.”

The Department of Finance Should Improve Oversight of the Property Tax System and Processes

- Policies and procedures related to property tax assessment processes were outdated and lacked sufficient detail to ensure processes are performed consistently and in compliance with state law.
- The Treasury Division could not ensure waived interest and fees were allowable.
- Information, such as occupied square footage and weighted exemption percentages related to state-leased properties, was inaccurate and inconsistent.

FULLY IMPLEMENTED 2
PARTIALLY IMPLEMENTED 2
NOT IMPLEMENTED 4
DISAGREED; NO FOLLOW-UP 2
While the Department of Finance fully implemented two recommendations made in the “Property Tax Assessment Process” audit report, six others the department agreed to have yet to be acted upon or fully implemented.

The department took steps to help mitigate many of the risks identified in the original audit; however, the recommendations the department did not fully implement present several lingering risks. For example, the department’s waiver policy conflicts with the state law that limits waivers of interest and fees to amounts less than $50. In addition, the policy lacks criteria for approving waivers and a process to track and monitor the number and dollar amount of waivers granted by the Treasury Division. Including this information in a policy would help the division hold supervisors and staff accountable for the consistent application and validity of waivers and ensure the city does not lose revenue.

Additionally, at the time of our follow-up, the Department of Finance was still implementing a new property tax assessment system. This contributed to our conclusion that most of the recommendations were either only partially implemented or not implemented.
Finding 1 | The City Incorrectly Recorded and Reported the State Reimbursement for the Senior and Disabled Veteran Property Tax Exemptions

Recommendation 1.1  Correct Accounting for the Exemption Reimbursement – The Department of Finance should record the state's reimbursement of the senior and disabled veteran property tax exemption as a government-mandated nonexchange transaction in the city’s financial accounting records beginning in 2019.

AGENCY ACTION

No action was taken to implement this recommendation because the agency disagreed with the recommendation made in our original report.

This was the agency's response to the recommendation when the original report was issued in October 2019:

We do not agree that the senior tax exemption program meets the GASB 33 definition of a government-mandated nonexchange transaction because we are not required to use the money for a specific purpose. This program does not precisely meet any of the classes of nonexchange transactions in GASB 33. GASB has acknowledged both of these points in our discussion with them. It is also important to note that GASB 33’s primary purpose is to define when to report nonexchange transactions in the financial statements, not which line item to report the revenue. There is nothing in dispute regarding the timing of our revenue recognition.

There isn’t a general ledger account or financial statement line item called government-mandated nonexchange transactions in which to record this revenue as the Auditor’s Office recommended.

Nonexchange transactions would fall within an existing and commonly used revenue category more specific to what it is, such as property taxes or intergovernmental revenue. In our discussion with GASB, they stated that they cannot tell us from a reality or practical standpoint how to report this revenue and that we should consider all the factors and use professional judgment when deciding on which line item to report the revenue.

Solely from a conceptual standpoint, the state’s senior tax exemption program does not meet the definition of property
taxes. However, after lengthy discussion and consideration, we have decided it is in the best interest of the Comprehensive Annual Financial Report (CAFR) readers to continue to report it with property tax revenue. This pragmatic approach is not materially misleading and provides consistency and comparability in reporting. When deciding how to report it, we looked at several factors.

- We record the official tax levy as a receivable and deferral at year-end, which reflects what was publicized to the citizens as property taxes levied and to be collected. Trying to adjust that amount for the senior tax exemption payment that will be received the subsequent year would be difficult and confusing.

- For three years during the last economic downturn, the state didn’t fund the program. In this scenario, which could happen again, it would be collected from the property owner and reported as property taxes. We shouldn’t change our reporting year over year depending on whether the state program is funded or not.

- We do not believe this in any way negatively affects our bond agreements.

- Other counties in the state, as well as Denver Public Schools (the largest recipient of this money), report it the same way as property tax revenue.

- There are other areas in the CAFR where reporting would be negatively impacted. Many financial decisions involve the analysis of financial trends over time and property tax revenue is inevitably an area of interest. Without consistent reporting, the data becomes less meaningful.

For the original report, we wrote the following addendum rebutting this agency’s response:

As stated in the audit report, state law mandates the city provide a property tax exemption each year to eligible seniors and disabled veteran homeowners. This reduces or eliminates the amount of property taxes owed by those homeowners and the amount of taxes collected by the city to fund its operations, as well as reduces amounts collected by the city on behalf of other government entities, such as Denver Public Schools. The state then reimburses the city for the amount of the exemptions, less any unallowed exemptions.
The state providing funds on a reimbursement basis versus an advance basis does not change the mandate underlying the funds. The funds are provided by the state to the city to fund the senior and disabled veteran property tax exemptions.

In our conversation with Governmental Accounting Standards Board, or GASB, officials, they initially wavered on whether or not the transaction had a specific eligibility requirement that would normally be found in a government-mandated nonexchange transaction but agreed that the transaction substantively met the definition of a government-mandated nonexchange transaction. We maintain that the requirement for seniors and disabled veterans to meet certain eligibility criteria (age or disabled status, length of residency in the primary residence, among others) meets the eligibility requirement of a government-mandated nonexchange transaction.

As the Controller’s Office noted in its response, for the three years during the last economic downturn, the state didn’t fund the program. As a result, the tax exemptions were not provided. Based on this, the substance of the state funding is used for a specific purpose, as required to meet the GASB 33 definition of a government-mandated nonexchange transaction.

Our recommendation did not specify what general ledger account or comprehensive annual financial report treatment should be used for reporting the reimbursement payment, only that it should be correctly classified in the general ledger and, by implication, in the comprehensive annual financial report. The Controller’s Office could use an existing general ledger account or create a new account to account for the proceeds from the reimbursement in the general ledger.

While we did not recommend changing anything with revenue recognition, the Controller’s Office should be reviewing revenue recognition on an ongoing basis to ensure that such recognition is appropriate.

**Recommendation 1.2**

**Provide Complete Data to Other Entities** – The Department of Finance should review what data is provided to Denver Public Schools and other government entities regarding property taxes and reimbursements related to the tax exemptions. If that data is not sufficiently clear as to the source of the funds, the department should modify the reporting to those entities.
to make certain they receive accurate data regarding property taxes and tax exemption reimbursements to ensure they can provide accurate financial reporting.

AGENCY ACTION

No action was taken to implement this recommendation because the agency disagreed with the recommendation made in our original report.

This was the agency’s response to the recommendation when the original report was issued in October 2019:

As noted in the finding, this data is already provided on a monthly basis to the recipients of property truces, as well as the general public, as it is published on denvergov.org. The recipients know and understand that the line item on the report is for the state’s senior tax exemption program. We have confirmed with Denver Public Schools that they report the funds in the same manner as they do property taxes. It is up to each recipient to decide on the most appropriate way to report the funds.
Develop, Document, and Implement Policies and Procedures – During the implementation of the new property tax system, the Department of Finance, including the Assessment Division, Treasury Division, and Controller’s Office, should develop, document, and implement policies and procedures for processes related to property tax assessment. Policies and procedures should identify, at a minimum:

- Responsible parties.
- Chain of custody.
- Review and approval of procedures.
- Documentation requirements.
- A timeline for periodic review and approval to update policies and procedures.

AGENCY ACTION

Original target date for completion: Oct. 1, 2020

In responding to this recommendation, the Department of Finance said in the original audit report it would “develop electronic policy/procedure documents during the conversion to iasWorld,” the department’s new property tax system. As of November 2020, the department was still implementing iasWorld and only the Assessment Division’s module had been implemented. Therefore, Finance officials said they would use the system guides from iasWorld to develop more policies and procedures after the first full year of iasWorld’s implementation on or before Nov. 20, 2021.

In line with recommendations 2.5 and 2.7 — which aim to establish and document criteria for waiving fees and to document lease monitoring procedures, respectively — the Finance Division implemented two policies: one related to waiving interest and fees and the other related to monitoring state leases. However, upon reviewing the Treasury Division’s procedures for waiving interest on property taxes, we noted the policy did not contain the criteria for granting waivers nor a detailed process for documenting or reviewing waivers when they are granted. Therefore, the policy was not implemented in line with Recommendation 2.1.

Meanwhile, the Assessment Division’s new policy for monitoring state leases did contain information as recommended — including responsible parties, chains of custody, and review and approval procedures.
Therefore, based on our review of the policies implemented and in light of the ongoing implementation of iasWorld, we consider this recommendation only partially implemented. As the Finance Division continues to implement iasWorld, staff should ensure policies and procedures they develop contain information as outlined in Recommendations 2.1 and 2.5 to ensure consistent application of processes.

**Recommendation 2.2**

Develop and Document Procedures to Accurately Capture Omitted Properties – The Assessment Division should work with the Controller’s Office and Treasury Division to ensure all omitted properties are properly captured in certifications of valuation provided to third-party entities. Additionally, because third-party entities rely on certifications for budgeting and property tax rate-setting purposes, the Assessment Division should use the Assessors’ Reference Library as guidance to ensure data is accurate.

**AGENCY ACTION**

**Original target date for completion: Jan. 17, 2020**

Assessment Division officials said they discussed the state’s omitted property guidance with the Controller’s Office and verbally agreed the process in place at the time of the original audit aligns with the guidance because it “considers anything that was not on the prior tax roll as omitted property.” Staff did not provide us with documentation of this discussion, but as a result of that reported discussion, the Assessment Division determined the process in place during the original audit accurately captured omitted properties.

As we discuss in the agency action for Recommendation 2.3, Assessment Division staff said their process for capturing omitted properties will change once the new iasWorld system is implemented. Finance officials described to us iasWorld’s “omitted properties” report, but that report will not be available for testing until August 2021 when tax adjustments are reported to the state.

While officials reported conversations between the Assessment Division and the Controller’s Office and while they performed a review of the state’s guidance for omitted properties, we consider this recommendation only partially implemented because iasWorld has not been fully implemented.
**Recommendation 2.3**

**Track and Monitor Omitted Properties Data** – The Assessment Division should work with the Controller’s Office and Treasury Division to establish and document procedures to track and monitor data related to omitted real and personal properties to identify potential trends and ensure omissions are not due to data entry or other administrative errors.

**AGENCY ACTION**

**Original target date for completion: Jan. 17, 2020**

As we mentioned in the agency action for Recommendation 2.2, the Assessment Division did not change its processes for tracking and monitoring omitted property, such as formally documenting existing procedures. However, Finance Department staff said that as iasWorld continues to replace the city’s former property tax system, OASIS, the process for tracking and monitoring omitted properties will be automated through an iasWorld report.

Finance officials expect to use the report to track omitted property assessments and any resulting tax changes. However, this report will not be available for testing until August 2021 when tax adjustments are reported to the state.

Because the new planned process has yet to be tested, documented, or implemented, we consider this recommendation not implemented.

**Recommendation 2.4**

**Obtain Clarification of State Law** – The Treasury Division should work with the City Attorney’s Office to clarify Colorado Revised Statutes § 39-10-104.5(10) with regard to waiving interest and fees due to delinquent taxes. Based on its findings, the Treasury Division should adjust and document its policies and procedures on granting waivers accordingly.

**AGENCY ACTION**

**Original target date for completion: Nov. 30, 2019**

In November 2019, the City Attorney’s Office concluded state law limits the Treasury Division to waiving interest and fees where the amount is less than $50. However, when we reviewed the Treasury Division’s waiver policy, we found the division misinterpreted the attorney’s conclusion and added a requirement that management should be involved and may approve waivers of over $50.

**NOT IMPLEMENTED**
Because the Treasury Division misinterpreted the City Attorney’s Office conclusion, we consider this recommendation not implemented. While the division obtained the clarification as recommended, it did not revise its policy accordingly with the City Attorney’s Office’s conclusion.

Recommendation 2.5

Establish and Document Criteria for Waiving Fees – Based on the guidance obtained from the City Attorney’s Office as part of Recommendation 2.4, the Treasury Division should establish criteria for when interest, fees, and penalties are eligible to be waived as well as a process for review, approval, and documentation of waived interest and fees.

AGENCY ACTION

Original target date for completion: Nov. 30, 2019

As referenced in the agency action for Recommendation 2.4, the Treasury Division established a waiver policy that says a manager must approve waivers greater than $50 and notes must be added to the account in the property tax system. However, the policy conflicts with the City Attorney’s Office’s conclusion, which says the division is limited to waiving interest, fees, and penalties to $50 or less. Therefore, the division’s policy does not comply with the state law. In addition, the policy did not contain additional criteria for granting waivers, and Treasury officials said all waiver decisions are subject only to supervisors’ discretion.

Because of the conflict between the state law and the policy and because of the lack of established criteria for granting and approving waivers, we conclude the Treasury Division did not implement this recommendation.

Recommendation 2.6

Establish Procedures for Accounting for Waived Interest and Fees – With implementation of Recommendation 2.5, the Treasury Division should work with the Controller’s Office to identify procedures to properly record and account for waived interest and fees.

AGENCY ACTION

Original target date for completion: Dec. 31, 2019

Treasury Division staff said OASIS, the division’s former system of record for property tax accounts, could not record and account for waived interest

NOT IMPLEMENTED
and fees. Once iasWorld is implemented, a report can be created that would contain the number of waivers during a specified date range.\footnote{“Appraisal & Tax Software Solutions,” Tyler Technologies, accessed Oct. 4, 2020, https://www.tylertech.com/solutions/public-administration/appraisal-tax.} However, this report cannot show the total amount of taxes and interest due, the amount of interest waived, or the name of the employee who granted the waiver.

The division has not implemented alternative ways to record and track the waived interest and fees. For this recommendation to be considered fully implemented, the division needs to identify a methodology for comparing the iasWorld report to another document used to capture the dollar amounts of waivers granted.

Incomplete tracking of waived interest and fees puts the city at risk of losing revenue. It also prevents the Treasury Division from holding supervisors and staff accountable to ensure the waivers they grant are limited to the $50 threshold and in compliance with state law.

The Treasury Division still does not track the amounts waived and could only identify a way to record and account for the number of waivers. As such, we determined the recommendation is not implemented.

Recommendation 2.7

**Document Lease Monitoring Procedures** – As part of the new property tax system implementation, the Assessment Division should establish and document procedures to ensure information used for monitoring leases is accurate. Documentation should include, but not be limited to: methodologies for calculating weighted exemption percentages; the source of record for total rentable square footage, such as the lease and/or OASIS; and a process for supervisory review to ensure accuracy and completeness of the information.

**AGENCY ACTION**

**Original target date for completion: Jan. 17, 2020**

We reviewed the Assessment Division’s documented procedures for tracking state leases and compared them to the Assessors’ Reference Library guidance on monitoring state leases. We determined the procedures provided by the Assessment Division contain the subprocesses for tracking state lease information, such as calculating weighted exemption percentages and performing a supervisory review. In addition, the documented procedures include instructions related to the new property tax system, iasWorld.
Because the division's procedures were documented and now align with the Assessors' Reference Library guidance and because the Assessment Division corrected inaccuracies as noted in Recommendation 2.8, we consider this recommendation fully implemented.

**Recommendation 2.8**

**Correct Inaccurate Weighted Exemption Percentages** – The Assessment Division should calculate the amount of property taxes potentially over- or undercollected due to the inaccurate weighted exemption calculations for properties affected. Once calculated, the Assessment Division should contact the affected property owners to determine an appropriate course of action for resolving previously inaccurate property taxes collected.

**AGENCY ACTION**

**Original target date for completion: Jan. 17, 2020**

Assessment Division staff determine the amount of property taxes by calculating a weighted exemption percentage based on the amount of occupied square footage, as determined by the lease, compared to a building's or plot of land's total rentable square footage. The original audit in 2019 found that property taxes for four properties were affected because of weighted exemption calculations.

According to the Assessment Division's response to the original report recommendation, division staff determined that the affected property owners did not need to be contacted because no appeals were needed, and in these cases, the property taxes cannot be applied retroactively.

During our follow-up work, we compared the weighted exemption percentages calculated in the tracking spreadsheet used by the Assessment Division to the amount recorded in the property tax system. We determined Assessment Division staff did correct the weighted exemption percentages for the affected properties.

Therefore, we consider this recommendation fully implemented.
Office of the Auditor

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