



Office of the City Auditor

Audit of the Office of the Real Estate Assessor

Report Date: August 28, 2015

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, Virginia 23456
757.385.5870

"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

Lyndon Remias, CPA, CIA, CRMA

City Auditor

Timothy Bell, CICA

Senior Auditor

www.vbgov.com/cityauditor

Office of the City Auditor

2401 Courthouse Drive, Room 344

Virginia Beach, VA 23456

Telephone: 757.385.5870

Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330



Office of the City Auditor Transmittal Letter

Date: August 28, 2015
To: Jerald D. Banagan, Real Estate Assessor
Subject: Audit of the Office of the Real Estate Assessor



I am pleased to present the report of our audit of the Office of the Real Estate Assessor. The objectives of our audit were to review the policies and procedures to ensure they are designed and implemented to achieve the Real Estate Assessor's Office objectives.

Findings considered to be of insignificant risk have been discussed with management. We completed fieldwork on August 5, 2015.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, the Real Estate Assessor's Office, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the Real Estate Assessor's Office for their courteous and prompt assistance during our audit. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
James K. Spore, City Manager



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Purpose

The purpose of our audit was to review the Office of the Real Estate Assessor's (REA) policies and procedures for determining valuation and comprehensive coverage of real estate assessments within the City.

Scope & Objectives

The scope of the audit covered the Real Estate Assessor's Office policies and procedures in place during fiscal year 2015. The objectives of our review were:

- To document the procedures and related controls for valuation of residential and commercial properties within the City.
- To assess whether those controls are designed effectively to reduce risk to an acceptable level and to determine whether the procedures/controls are being complied with.
- To review the two comprehensive assessment process reviews conducted by an outside consultant firm on behalf of the Department of Management Services of Real Estate Assessor's Office reassessment processes.

Methodology

To accomplish our objectives, we performed the following procedures:

- Obtained and reviewed the comprehensive assessment process reviews conducted by an outside consultant firm for conclusions made, applicability and to determine scope of the audit.
- Obtained process documentation on the real estate business processes and the annual assessment cycle for understanding the interface between the processes and real estate assessment, software and databases.
- Interviewed residential appraisers, commercial appraisers, and supervisors to document office and field assessment processes.
- Documented the posting process of parcel values and follow-up review of appraisers' assessments.
- Analyzed value change forms used by appraisers to change parcel values for supervisory review, posting and incorporation into the Real Estate Land Book.
- Analyzed Board of Equalization value change decisions to determine if applicable documentation and posting of new values were completed.
- Determined if all applicable permits from the Planning Department that impact valuation of parcels were obtained and incorporated into the new valuation by REA.
- Determined if the different levels of system access to parcel valuations, changes additions, and income information were appropriate to the level of responsibility.



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Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, Real Estate Assessor's Office, and appropriate management. This report will also be made available to the public.



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Background

Mission

The mission of the Office of the Real Estate Assessor (REA) is to annually and accurately appraise all taxable and tax exempt real estate fairly and equitably, and maintain and continually amend assessment records to reflect changes in the City's real estate property in accordance with state law and city code. This responsibility includes a quarterly inspection of new construction for the measurement, classification, documentation, and appraisal of newly constructed

buildings and additions to existing buildings. For existing buildings and properties, the recording of

recent subdivision sales are analyzed to determine assessment adjustments. Additional responsibilities include the real estate transfer function which involves deed transfers from sale of properties, transfers of ownership resulting from other transactions (such as a will), and recording taxable parcels (i.e. parcels created from development). The City has approximately 156,000 taxable parcels of real estate and each is physically visited every 5 years (at least 20% of parcels are visited each year by REA).



Performing a residential assessment



Taking measurements for a commercial assessment

The law requires the assessor to value real estate annually at 100 percent of its fair market value, a challenging endeavor in active real estate markets; however, this ensures a high degree of real estate tax equity. The result of REA's efforts is the Real Estate Land Book presented to City Council at the end of each fiscal year.

REA has a budget of \$3,197,870 for FY 2016 with 34 full-time positions.

Board of Equalization

The Board of Equalization is appointed by the Circuit Court to hear assessment appeals and is separate and independent from REA. The board has the power to revise, correct, and amend real estate assessments. Generally, after an initial assessment review by the Real Estate Assessor, a resident may appeal and the board reviews the request. Hearings are held throughout the year but appeal requests must be filed by September 30th. The board either affirms the initial assessment or determines whether it should be increased or decreased.



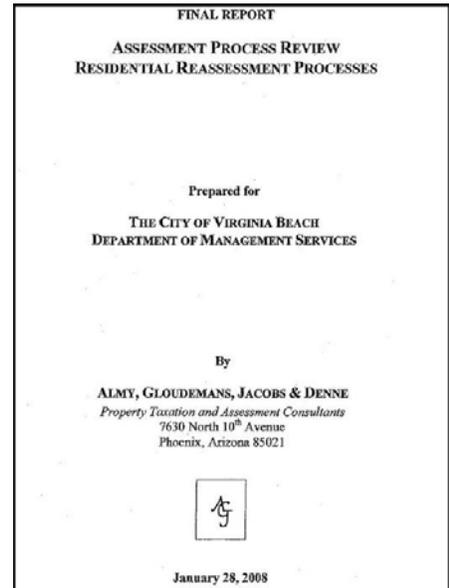
The REA must abide by the board's decision. The number of appeals processed for FY 2016 is estimated to be 50. Appeals spiked in FY 2009-10 which represented the first year of negative appreciation. The spike in appeals was from property owners who believed the decline was greater than the assessment.



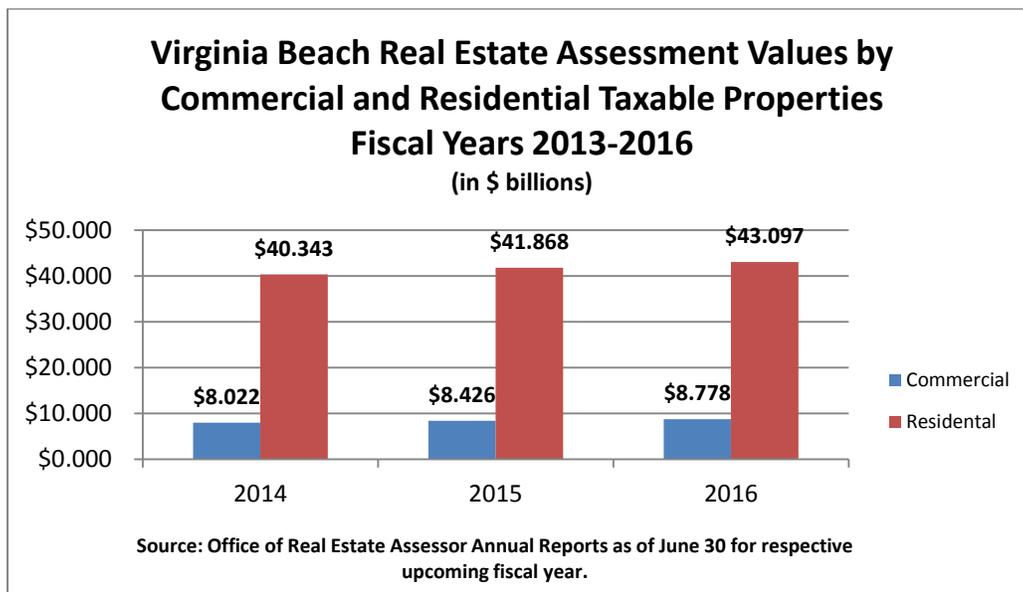
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Assessment Process Review by Independent Consultant

In 2007-08, an independent outside property taxation and assessment consultant conducted an assessment process review on behalf of the Department of Management Services. The consulting firm provided an objective review of both commercial and residential reassessment procedures and determined that REA does a credible, effective job of valuing residential and commercial properties at fair market value levels. Additionally, they commented on the office's strong leadership and experienced well-qualified residential and commercial staff that effectively employs acceptable valuation methods. They determined that residential and commercial values closely track the market and exhibit good uniformity among properties. REA achieved this while the workload per appraiser was in excess of industry averages by as much as 65% and has the heaviest workload of all of Hampton Roads cities. Since the consultant's review was conducted, REA has fully implemented the ProVal computer-assisted mass appraisal system which further enhances their effectiveness in coverage of properties and accuracy of their valuations. Our interviews with the real estate assessor, deputy assessor, residential and commercial appraisers, and supervisors and our review of current assessment procedures, in the office and in the field, confirmed the continued effectiveness of the REA valuation assessments of City properties.



Based on our conclusions above, we determined to limit the scope of our audit to authorized property records database system access by different levels of staff, Board of Equalization decisions, value change forms, and permits affecting valuation of properties. We did not review the tax and levy functions as property valuations provide the underlying basis for them to begin with.





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Results

Value Change Form

When an appraiser changes the value or assessment of a property, the Value Change Form is completed. This form states the reason for the change, what is being changed, who is changing it, when the change goes into effect, and what the previous and new revised values are. There are about 30 different reasons (see Appendix for list) that are listed on the form for a property's assessment value to be revised. After the supervisor reviews and approves the changes the revised values are posted after another review by another supervisor and become the new certified assessment value upon which the property tax is levied and listed in the Land Book at the end of the fiscal year. Only this particular supervisor can validate and certify revised assessment values. Then another clerk double checks the certified values before printing the value change notice. The Real Estate Assessor reviews all value change reassessments from the previous Land Book to oversee and determine if he accepts the change.

For our review, we randomly selected 50 properties (sample) that had assessment value changes during the first quarter of FY 15. The table below lists the reasons for value change in the selected 50 properties.

Table 1. Sample Reasons for Value Change

Reason for Value Change	# in Sample
Board Of Equalization	7
Exoneration- Full	4
NC-9 Mos Additional Val (Add)	8
NC-9 Mos Additional Val (New)	3
NC-9 Mos Additional Val (Supp)	1
NC-9 Mos New Pin	1
Supplement - Full	2
Supplement - Partial	1
Value Reduction - Full	17
Value Reduction - Part	6
Total in Sample	50

*See Appendix for explanations of reasons for value changes.

We examined each sample value change, except for the Board of Equalization samples discussed below, for appropriate Value Change Form with applicable signatures, backup documentation, and posting into the ProVal system. We did not note any exceptions; all were reviewed by various REA appraisers, supervisors, and management levels, and properly processed in the ProVal system.



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Board of Equalization Decisions

When the Board of Equalization (BOE) makes a decision to change the assessment value of a property, a letter of the decision is sent to the REA. The REA abides by the BOE's decision and changes the assessment value for the fiscal year in question. In our review of the seven (7) sampled BOE change values, each sample BOE decision had the appropriate letter from the BOE and was processed properly in the ProVal system. We did not note any exceptions with the processing of the Board of Equalization decisions.

58.1 Taxation > 32 Real Property Tax > § 58.1-3373 Permanent board of equalization

§ 58.1-3373

Permanent board of equalization.

A. Any county or city which uses the annual assessment method or the biennial assessment method authorized under § 58.1-3253 in lieu of periodic general assessments, may elect to create a permanent board of equalization in lieu of the board of equalization required under §§ 58.1-3370 and 58.1-3371. Such board shall consist of three or five members to be appointed by the circuit court of such county or city, or the circuit court having jurisdiction within such city, as follows: In the case of a three-member board, one member shall be appointed for a term of one year, one member shall be appointed for a term of two years, and one member shall be appointed for a term of three years. In the case of a five-member board, one

Permits

Any changes or reconfigurations to an existing building or property requires a permit from the City's Planning Department. Many of these permits may affect the assessment valuation of the property but not all so some permits get filtered out before going to REA. REA downloads the data from Planning and prints the permits for the appraisers to work them. Permits are tracked and listed until the appraiser works each permit and the ProVal database is updated to reflect the changes.

For our review, we obtained the permits issued in the month of May 2014 to determine if all applicable permits that change the assessment value were downloaded by REA. The table below lists a sample of permit uses from the time of May 2014 that affect assessment values:

Table 2. Sample of May 2014 Permit Use

•	Add full bath and closet into existing apartment unit
•	Roof HVAC replacement – Tallwood High School
•	Install 2 new exterior doors in existing classrooms and 2 doors into existing bathrooms
•	Residential duplex demolition
•	Inground pool
•	Interior alteration, new bedroom, bath, closet from existing den, new non-bearing pass-through into kitchen, walls for new stack laundry room
•	Deck addition
•	Sunroom in back of house
•	Adding a beam in the kitchen and building a pantry
•	Hot tub
•	Replacing siding and installing a moisture barrier
•	Adding drop ceiling, lights and HVAC

Of the 30 permits that met the sample criteria, all 30 were obtained by REA and the property records in ProVal were updated to reflect the permit. We noted no issues with permits within REA.



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Property Records Database System Access

Different REA system users have different levels of access to assessment information in ProVal based on job responsibilities. For example, appraisers can get into the property information in ProVal and can change drawings of buildings, revalue it and make changes to the parcel. However, they are not granted system permission to post to certify the revised assessment value that becomes the new permanent assessment value of the property. In addition, residential appraisers (and all other REA employees) cannot access income information used by commercial appraisers. Only the Deputy Real Estate Assessor has the highest access but the deputy's actions are cross-checked by the Real Estate Assessor and others as designated. Additionally, there is an informal policy that no appraisers work their own neighborhood.

REA management determines what each employee's role will be and access is granted accordingly to the various needed parts of ProVal through Communications and Information Technology (ComIT) Department. REA cannot make access changes in the system.

For our review, we determined general roles and responsibilities of each employee to examine access granted by REA. There are view, modify, create, and delete permissions granted to each role. We examined the primary roles that have the ability to effect assessment values as shown in Table 3 located on the page.

Table 3. REA Roles Effecting Assessment Values

Residential Appraiser	CAMA* Parcel Manager
Commercial Appraiser	CAMA Manager
Residential Supervisor	CAMA Administrator
Commercial Supervisor	Cadaster Manager

*Note: CAMA, Computer-Assisted Mass Appraisal

We obtained the system permissions of each role listed in Table 3 and examined the permissions granted for each role. Our examination did not note any exceptions of inappropriate permissions or access to sensitive information (such as income figures of commercial entities).

Conclusion

Overall, based on the results of our audit, we determined that the Office of the Real Estate Assessor's policies and procedures are working effectively for determining valuation and comprehensive coverage of real estate assessments within the City.

Acknowledgements

We would like to thank the Real Estate Assessor's Office for their assistance during our review. They were open to our suggestions and accommodating. They were also prompt with our information requests and willing to address all of our inquiries.



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Value Change Form Reasons for Change Explanations

Board of Equalization

Identifies adjustments to value that have been mandated by the Board of Equalization after an appeals hearing. These are reductions in value and will be effective July 1 of any given fiscal year.

Value Reduction-Full

Identifies reductions in value effective July 1 (for a full year), for a prior fiscal year and will generate a roll correction upon posting. The reductions in value are due to environmental issues, fire damage, demolitions, etc, NOT errors. This change reason identifies to Commissioner of Revenue and Treasurer's Office that if a taxpayer has already paid penalty and/or interest – none should be refunded.

Exoneration-Full

Identifies reductions in value effective July 1 (for a full year), for a prior fiscal year and will generate a roll correction upon posting. Reduction in value is due to appraisal error and this change reason identifies to Commissioner of Revenue and Treasurer's Office that if a taxpayer has already paid penalty and/or interest, it will may refunded.

NC-12 Mos partial/Supp (Add)

Identifies new construction increases in value that are effective for 12 months (July 1) and are due to "additions" to value, NOT new homes (i.e., decks, additions, pools). They are NOT supplements and the change reason code is used to capture value for our New Construction reports.

NC-12 Mos partial/Supp (New)

Identifies new construction increases in value that are effective for 12 months (July 1) and are due to "new" homes being completed and this will be the first time the improvement has been valued. They are NOT supplements and the change reason code is used to capture value for our New Construction reports.

NC-12 Mos partial/Supp (Supp)

Identifies new construction increases in value that are effective for 12 months (July 1) and are due to "supplements" to value, NOT new homes (used by the commercial team). They are NOT supplements and the change reason code is used to capture value for our New Construction reports.



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NC-3 Mos partial/Supp (Add)

Identifies new construction increases in value that are effective for 3 months (April 1) and are due to “additions” to value, NOT new homes (i.e., decks, additions, pools). They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-3 Mos partial/Supp (New)

Identifies new construction increases in value that are effective for 3 months (April 1) and are due to “new” homes being completed and this will be the first time the improvement has been valued. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-3 Mos partial/Supp (Supp)

Identifies new construction increases in value that are effective for 3 months (April 1) and are due to “supplements” to value, NOT new homes. This change reason is used by the commercial team. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-6 Mos partial/Supp (Add)

Identifies new construction increases in value that are effective for 6 months (January 1) and are due to “additions” to value, NOT new homes (i.e., decks, additions, pools). They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-6 Mos partial/Supp (New)

Identifies new construction increases in value that are effective for 6 months (January 1) and are due to “new” homes being completed and this will be the first time the improvement has been valued. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.



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NC-6 Mos partial/Supp (Supp)

Identifies new construction increases in value that are effective for 6 months (January 1) and are due to “supplements” to value, NOT new homes. This change reason is used by the commercial team. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-9 Mos partial/Supp (Add)

Identifies new construction increases in value that are effective for 9 months (October 1) and are due to “additions” to value, NOT new homes (i.e., decks, additions, pools). They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-9 Mos partial/Supp (New)

Identifies new construction increases in value that are effective for 9 months (October 1) and are due to “new” homes being completed and this will be the first time the improvement has been valued. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

NC-9 Mos partial/Supp (Supp)

Identifies new construction increases in value that are effective for 9 months (October 1) and are due to “supplements” to value, NOT new homes. This change reason is used by the commercial team. They are supplements (increase) in value for a partial year and will result in a roll correction. Although the land is valued AND included in the posting, the supplement will be based on the improvement value only. Adjustments are prorated monthly.

Reappraisal

Captures corrections and adjustments to value due to a completed “Request for Reappraisal” process after the notices have been mailed and prior to closing the land book. Effective July 1 for a full year, these changes will not result in a roll correction and can be either increases or decreases in land, building, or both.



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Reassessment

Denotes annual changes in value (effective July 1) for a full year. Can be the result of appraisal/market adjustments, plats, corrections to data without going through the Request for Reappraisal process, assessor adjustments, etc. Can increase or decrease land, building, or both.

Supplement-Full

Denotes increases in value (land, building, and/or both) effective July 1 (for a full year) that occur in a prior year (adjust a closed Land Book). These will result in a roll correction.

Tax Court

Changes in value as the result of a legal court case. There are none currently in the system.

Government Action-Full

Changes in value (increase or decrease to land, building or both) due to some form of government action (i.e., deed recordation, US Marshall acquisition, etc). Effective July 1 for a full year. Adjustments are prorated daily.

HOA Deed-Full

Changes in value (typically revalued to zero) that occur once ownership of a PIN is turned over to the homeowner association. Effective July 1 for a full year. Adjustments are prorated daily.

Value Reduction-Partial

Identifies reductions in value effective for any portion of the year (always dated the first of the month), for a prior fiscal year and will generate a roll correction upon posting. The reductions in value are due to environmental issues, fire damage, demolitions, etc, NOT errors generated by our office. This change reason identifies to Commissioner of Revenue and Treasurer's Office that if a taxpayer has already paid penalty and/or interest – none should be refunded. Adjustments are prorated monthly.

Exoneration-Partial

Identifies reductions in value effective for any portion of the year (always dated the first of the month), for a prior fiscal year and will generate a roll correction upon posting. Reduction in value is due to appraisal error and this change reason identifies to Commissioner of Revenue and Treasurer's Office that if a taxpayer has already paid penalty and/or interest, it will may refunded. Adjustments are prorated monthly.



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Government Action-Partial

Changes in value (increase or decrease to land, building or both) due to some form of government action (i.e., deed recordation, US Marshall acquisition, etc). Effective for any portion of the year. Unlike most other value change dates in ProVal, the effective date of this change reason is typically the date the document was recorded (to the day). Adjustments are prorated daily.

HOA Deed-Partial

Changes in value (typically revalued to zero) that occur once ownership of a parcel has been turned over to the homeowners association. Effective for any portion of the year. Unlike most other value change dates in ProVal, the effective date of this change reason is typically the date the document was recorded (to the day). Adjustments are prorated daily.

Supplement-Partial

Denotes increases in value (land, building, and/or both) effective for any portion of the year (always dated the first of the month) that occur in a prior year (adjust a closed Land Book). These will result in a roll correction and adjustments are prorated monthly.

NC-3 Mos New Pin

Effective April 1, this change reason is used when a new construction increase/supplement is needed on a parcel/PIN that did not exist at the time the land book was closed. This can occur when a parcel is split (thus creating two new GPINS) and a house is completed on one of the new PINS (for example). The use of this change reason code allows for an IMPROVEMENT supplement on a PIN that did not exist previously. Adjustments are prorated monthly.

NC-6 Mos New Pin

Effective January 1, this change reason is used when a new construction increase/supplement is needed on a parcel/PIN that did not exist at the time the land book was closed. This can occur when a parcel is split (thus creating two new GPINS) and a house is completed on one of the new PINS (for example). The use of this change reason code allows for an IMPROVEMENT supplement on a PIN that did not exist previously. Adjustments are prorated monthly.



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NC-9 Mos New Pin

Effective October 1, this change reason is used when a new construction increase/supplement is needed on a parcel/PIN that did not exist at the time the land book was closed. This can occur when a parcel is split (thus creating two new GPINS) and a house is completed on one of the new PINS (for example). The use of this change reason code allows for an IMPROVEMENT supplement on a PIN that did not exist previously. Adjustments are prorated monthly.

Supp-Land Child

Effective the first of any month, this change reason is used when a land increase/supplement is needed on a parcel/PIN that did not exist at the time the land book was closed. The use of this change reason code allows for a LAND supplement on a PIN that did not exist previously. Adjustments are prorated monthly.



City of Virginia Beach

REAL ESTATE ASSESSOR
(757) 385-4601
FAX (757) 385-5727
TTY: 711

VBgov.com
MUNICIPAL CENTER
BUILDING 18
2424 COURTHOUSE DRIVE
VIRGINIA BEACH, VIRGINIA 23456-9054

August 27, 2015

Lyndon Remias, CPA, CIA, CRMA
Office of the City Auditor

Dear Mr. Remias:

I was pleased with the findings by you and your staff of the review of the Real Estate Assessor's Office. We have always felt we had mechanisms and controls in place to protect the integrity of the City's real estate tax base. I hope you found our staff to be fully open and cooperative.

I found your staff to be extremely professional, thorough and courteous.

Sincerely,


J. D. Banagan, ASA
Real Estate Assessor

JDB/trw