



**TO:** IPA Firms Auditing Counties for 2021

**FROM:** Auditor of State's Center for Audit Excellence

**DATE:** June 21, 2022

**SUBJECT:** County Property Tax Reduction Procedures

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The following memorandum relates to testing of county audits performed by IPAs for the fiscal year ended 2021, where field work has not been completed. This memo discusses modified procedures related to county property tax reduction processes. The memorandum outlines suggested audit procedures and a practice aid (County Property Tax Exemption workpaper, attached) to assist in this process.

As noted in previous memorandums, a local newspaper's review of property tax records in a county revealed several thousand rental properties receiving an owner occupancy credit (or 2.5% rollback) despite not qualifying for the exemption. While the resulting reductions received by taxpayers were likely not a quantitatively material audit issue, an adequate and appropriate internal control structure surrounding these transactions should be implemented by the counties to help avoid such errors.

In order to continue to assist counties in their improvement of oversight of taxpayer funds throughout the state, particularly as it relates to property tax reductions, audit procedures related to both control testing and substantive testing should be performed. Control testing, as recommended in previous memos, has not been modified.

Please perform the following substantive testing, where field work has not been completed:

For Tax Year 2020 tested for FY2021:

- i. a. Obtain a report of the parcels receiving property tax exemptions for the non-business credit (10% rollback) from the County Auditor's office. Include the report in the workpapers for documentation purposes. Auditors should be sure to request the report include the property owner or taxpayer name. (Note: This may or may not be a standard report from the County Auditor's accounting system, therefore, auditors should be specific in their request for information.)
  - Record the total number of exemptions from the report on the County Property Tax Exemption workpaper.

- Scan the Non-Business Credit exemption report (obtained as noted above) for business names (such as taxpayer names with “LLC” or “Inc.”).
  - Select from the exemption report 5 parcels with business names receiving the Non-Business Credit.
  - Review supporting documentation for the 5 parcels selected and determine if the exemption was properly granted. (It may be beneficial to walkthrough the determinations with a County representative in order to completely and accurately understand the determinations.)
  - Record the number of improperly granted exemptions noted (of the 5 selected for testing) on the County Property Tax Exemption workpaper.
- b. Obtain a list of exemptions that include duplicate names for both the Homestead Reduction and Owner-Occupied Credit types:
- Record the number of exemptions for the Homestead Reduction and the Owner-Occupied Credit from the duplicate reports on the County Property Tax Exemption workpaper.
  - Select 5 unique names attached to more than one parcel receiving the Homestead Reduction and 5 receiving the Owner Occupied Credit from the respective exemption duplicate reports.
  - Review supporting documentation for the parcels selected and determine if the exemption was properly granted. (It may be beneficial to walkthrough the determinations with a County representative in order to completely and accurately understand the determinations.)
  - Record number of improperly granted exemptions noted (of the 5 of each type selected for testing) on the County Property Tax Exemption workpaper.
  - Alternative procedures *if the County Auditor cannot provide a list of exemptions with duplicate names:*
    - If the County Auditor can only provide a list of parcels receiving the exemptions:
      - Record the total number of exemptions from the report on the County Property Tax Exemption workpaper.
      - Select 5 parcels, each, receiving reduction and/or owner-occupied credit from the exemption report.
      - Review supporting documentation for the parcels selected and determine if the exemption was properly granted.
      - Record number of errors noted (of the 5 selected for testing for each type) on the County Property Tax Exemption workpaper.
      - Alternative procedures should ONLY be performed if the County Auditor cannot provide a list of exemptions with duplicate names.
- ii. Those parcels determined to be receiving the exemptions in error (or those likely receiving the exemption in error) should be referred to the County for review and correction. Such errors should be evaluated for materiality and related internal control deficiencies should be reported to management or those charged with governance as appropriate. (Keep in mind, errors identified using this testing cannot be projected to the population as these are not using adequate sampling procedures to do so.) Errors

that remain uncorrected for subsequent years should be referred to the Ohio Department of Taxation and such referral should be included in the related issue. Findings for Recovery should not be issued unless fraudulent activity is noted.

- iii. *Alternative Procedures* (ONLY applicable if Steps i. and ii. above cannot be completed): Select a small number of parcels used for business operations that should NOT be receiving property tax exemptions from an independent source (e.g. Zillow, maps, Google, etc.) and review County records/reports for exclusion from the exemptions listed above.

Please submit the results of the testing with the submission of the audit report. Questions related to these procedures can be directed to Eric Kline at [ekline@ohioauditor.gov](mailto:ekline@ohioauditor.gov).

**COUNTY PROPERTY TAX EXEMPTION TESTING**

**Source:** Exemption reports were provided by [Name, Position at County Auditor’s Office] and related supporting documentation including [list supporting documentation reviewed] was provided by [Name, Position at County Auditor’s Office].

**Purpose:** To document the **mandatory** testing of tax exemptions approved by the County Auditor/Fiscal Officer’s Office for Tax Year 20XX-1 (Fiscal Year 20XX).

**County Property Tax Exemption Testing**

- A. Non-Business Credit (NBC) (10% Rollback) –** Ohio Rev. Code §319.302 (see the [County Property Tax Exemption Summary](#) for additional information):

Total Number of NBC Recipients (from report)	Number of Improperly Granted NBC exemptions (of 5 tested)	Parcel Numbers Tested	
		Improperly Granted NBC	Properly Granted NBC

- B. Homestead Reduction (HR) -** Ohio Rev. Code §323.152(A) – Real Property and Ohio Rev. Code §4503.065 – Manufactured Homes (see the [County Property Tax Exemption Summary](#) for additional information):

Total Number of HR Recipients (from duplicate report)	Number of Improperly Granted HR (of 5 tested)	Parcel Numbers Tested	
		Improperly Granted HR	Properly Granted HR

*Alternative Procedure (to be used ONLY if the County is unable to provide a duplicate report.):*

Total Number of HR Recipients (from report)	Number of Improperly Granted HR exemptions (of 5 tested)	Parcel Numbers Tested	
		Improperly Granted HR	Properly Granted HR

- C. Owner Occupied (2.5% Rollback) Credit (OOC) -** Ohio Rev. Code §323.152(B) – (E) (see the [County Property Tax Exemption Summary](#) for additional information):

Total Number of OOC Recipients (from duplicate report)	Number of Improperly Granted OOC (of 5 tested)	Parcel Numbers Tested	
		Improperly Granted OOC	Properly Granted OOC

*Alternative Procedure (to be used ONLY if the County is unable to provide a duplicate report.):*

Total Number of OOC Recipients (from report)	Number of Improperly Granted OOC (of 5 tested)	Parcel Numbers Tested	
		Improperly Granted OOC	Properly Granted OOC

**Conclusion(s):**

***Internal Control Deficiencies:***

**[COUNTY NAME] County**  
**1/1/XX – 12/31/XX**

**COUNTY PROPERTY TAX EXEMPTION TESTING**

Document below possible deficiencies we should report to management, those charged with governance, etc. and hyperlink to the related Issue. If there were none noted, include "No deficiencies were identified" below. (Note: Rows can be added to the table below as necessary.)

<b>Deficiency</b>	<b>Issue Reference/Hyperlink</b>