

OHIO AUDITOR OF STATE KEITH FABER



From: Auditor of State's Center for Audit Excellence

To: All IPA Firms

Subject: County Property Tax Reduction Procedures

Date: January 27, 2020

The following memorandum relates to testing of county audits performed by the IPAs for the fiscal year ended 2019, likely to be tested in the spring of 2020. This memo discusses modified procedures related to county property tax reduction processes. The memorandum outlines suggested audit procedures and practice aid (County Property Tax Exemption workpaper, attached) to assist in this process.

As noted in a memorandum dated November 20, 2018, 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 was likely not a quantitatively material audit issue, an adequate and appropriate internal control structure surrounding these transactions should be implemented by the counties overseeing these reductions 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 the November 2018 memo, has not been modified.

Please consider the following substantive testing:

For Tax Year 2018 tested for FY2019:

- i. Obtain a report of the parcels receiving property tax exemptions for each of the following exemption types, the A) non-business credit (10% rollback), B) homestead reduction, and C) owner-occupied credit (2.5% rollback) from the County Auditor's office. Include these reports in the workpapers for documentation purposes. Auditors should be sure to request

the reports 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. If such reports are unavailable, see Alternative Procedures below.)

A. Non-Business Credit (10% rollback) testing:

- 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 any obvious errors (such as taxpayer names with "LLC" or "Inc.") and record the number of errors noted on the County Property Tax Exemption workpaper.

B. Homestead Reduction testing:

- Record the total number of exemptions from the report on the County Property Tax Exemption workpaper
- Select 5 parcels receiving the Homestead Reduction from the exemption report
- Review supporting documentation for the 5 parcels selected and determine if they exemption was properly granted.
- Record number of improperly granted exemptions noted (of the 5 selected for testing) on the County Property Tax Exemption workpaper.

C. Owner-occupied credit (2.5% rollback) testing:

- Record the total number of exemptions from the report on the County Property Tax Exemption workpaper
- Select 5 parcels receiving the owner-occupied credit from the exemption report
- Review supporting documentation for the 5 parcels selected and determine if the exemption was properly granted.
- Record number of errors noted (of the 5 selected for testing) on the County Property Tax Exemption workpaper

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. 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 (maps, phonebook, etc.) and review County records/reports for exclusion from the exemptions listed above.

For periods following implementation year:

- iv. Select a small number of conveyances from the tax year under audit and review for proper inclusion of property tax exemptions.

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 or at 740-534-6420.

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 **required** testing of tax exemptions approved by the County Auditor/Fiscal Officer’s Office for Tax Year 2018 (Fiscal Year 2019).

County Property Tax Exemption Testing

A. Non-Business Credit (NBC) (10% Rollback) – Ohio Rev. Code §[319.302](#):

Total Number of NBC Recipients (from report)	Number of Errors on NBC Report	List of Parcel Numbers Erroneously Receiving Exemptions

B. Homestead Reduction (HR) - Ohio Rev. Code §[323.152](#)(A) – Real Property and Ohio Rev. Code §[4503.065](#) – Manufactured Homes:

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):

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