



Dave Yost
Auditor of State

From: Auditor of State's Center for Audit Excellence
To: All IPA Firms
Subject: County Property Tax Reduction Evaluation of their
Internal Control Policies and Procedures
Date: November 20, 2018

The following memorandum relates to testing of county audits performed by the IPAs for the fiscal year ended 2018, likely to be tested in the spring of 2019. This memo discusses a few minimal additional procedures related to the counties' control environment and your assessment of their county property tax reduction process. The memorandum outlines your evaluation and risk assessment of their control procedures for this process.

Ohio law allows several property tax credits or exemptions for non-business parcels and owner-occupied homesteads, as well as additional reductions for specifically-designated residents who qualify, including those who are disabled, age 65 or older, or a disabled veteran. The following Ohio Rev. Code sections discuss the qualifications and calculations for the respective reductions:

1. Non-Business Credit (10% Rollback) – Ohio Rev. Code §319.302
2. Homestead Reduction - Ohio Rev. Code §323.152(A) – Real Property and Ohio Rev. Code §4503.065 – Manufactured Homes
3. Owner Occupied (2.5% Rollback) Credit - Ohio Rev. Code §323.152(B) – (E)

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 assist counties in their continued 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 would include the following points of focus to evaluate the county's controls related to tax exemptions:

- Do they have control procedures which assure that tax exemptions are within the law and properly approved? (Authorization)
- Do they have control procedures which assure that all properly approved exemptions from tax are input for processing? (Completeness of input)

Please consider the following substantive testing:

Review Tax Exemptions for obvious errors.

For implementation year (most likely Tax Year 2017 tested for FY 2018):

- i. Obtain reports of the parcels receiving property tax exemptions, including the non-business credit (10% rollback), homestead reduction, and owner-occupied credit (2.5% rollback) the County Auditor's office. Auditors should request the reports which 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.)
- ii. Scan the reports for any obvious errors such as business names (including LLC, Inc., etc.) or multiple parcel numbers with the same owner/taxpayer name in the instance of the owner occupied credit.
- iii. Review tax exemption forms for any questionable items noted in ii. above to help ensure the exemption was properly granted.
- iv. Select a small number of parcels from the report and review exemption forms to determine the exemption was allowable.
- v. *Alternative Procedures* (only applicable if Steps i. – iv. 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 (most likely Tax Year 2018 tested for FY 2019):

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

Questions related to the additional procedures can be directed to Brad Blake at wblake@ohioauditor.gov or at 614-466-3597.