

## 2.20 Municipal Assessment Agency

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### Introduction

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#### Agency Mandate

The Municipal Assessment Agency, a Crown-owned agency created in 1997, is the only source of residential and commercial property assessment services for 230 municipalities which levy property taxes. The exception is the City of St. John's, which performs its own assessments.

The Agency operates under the *Assessment Act* and reports to a board of directors comprised of 6 elected municipal officials, 2 representatives from the Provincial government, 2 from municipal associations and 2 taxpayers. The Agency has three regional offices (Eastern, Central and Western) and seven satellite offices throughout the Province.

The Agency performs assessments on the following types of properties: approximately 122,000 residential, approximately 35,000 vacant land parcels, approximately 12,500 commercial/industrial and approximately 6,400 other properties. Mass appraisal techniques are used to assist in valuing properties. Mass appraisal provides that properties with similar characteristics and circumstances are valued similarly. The Agency charges an annual fee to municipalities for assessment services.

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## 2.20 Municipal Assessment Agency

### Map

This map shows the location of the Municipal Assessment Agency's Regional and satellite offices. The Corporate Office is located in St. John's.



## 2.20 Municipal Assessment Agency

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### Audit Objectives and Scope

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#### Objectives

The objectives of our review were to determine whether the Agency:

- followed established legislation, policies and procedures with respect to conducting property assessments; and
- complied with Government and Agency policies and procedures relating to its expenditures.

We completed our review in April 2005.

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#### Scope

Our review of the Municipal Assessment Agency covered the period from January 2002 to March 2005. Our review of property assessments focused primarily on the residential assessment component. Our work was conducted primarily at the Agency's Head Office and included discussions as needed with officials located in other Agency offices.

#### Agency's Head Office in St. John's



## 2.20 Municipal Assessment Agency

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### Conclusions

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#### Overall

The Municipal Assessment Agency is not assessing property values in a timely, complete and consistent manner. As a result, municipalities may not be receiving the most accurate and complete assessed property values to ensure they maximize their revenues.

We examined several aspects of the Agency's property assessment process, as well as its expenditures, and reached the following conclusions.

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#### 1. Property Assessment issues

##### *Property sales inspections not completed*

According to the Agency's database at the time of our review, nearly half of the 20,055 properties sold during the period 2002 to 2005 were never inspected. It is important that these sales inspections be completed to assist in ensuring that the three year revaluations, which rely on market information, are accurate.

##### *Full inspections not completed*

Contrary to policy, approximately 74% of inspections did not include an interior inspection of the property. A contributing factor to this situation is that there is no follow-up if the property owner is not home. Neglecting to perform full inspections increases the risk that complete information on a property is not being collected to determine the market value of that property. Since property owners are likely to appeal in the event that their property is overvalued, there is a greater risk that properties are undervalued, and therefore less tax revenue collected for the municipalities.

##### *Guidance to assessors not provided*

Staff at the Agency indicated that, as a result of the lack of guidance provided to assessors, there are inconsistencies in the completion of assessment forms. Therefore, properties are not always valued on a consistent and uniform basis.

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## 2.20 Municipal Assessment Agency

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### *Target for 10 year inspections not achieved in 2005*

The *Assessment Act* requires that all properties be visited for inspection at least once every 10 years. This portion of the *Act* became effective in 1998; therefore the Agency has until 2008 to ensure that all properties have been visited in 10 years. In accordance with the Agency's Data Tracking policy, these visits are exclusive of visits required for other purposes. To satisfy the requirements of this policy, the Agency has a plan in place to inspect 10% of properties each year, starting alphabetically by street in each municipality. However, supplementary inspections and appeals inspections take precedence over the 10 year visits.

The annual report of the Agency for the year ended 31 March 2005 indicated that the Agency completed 10,918 inspections to comply with the Data Tracking policy. As the Agency has approximately 176,000 properties that would require inspection, it has inspected only 6% of the properties in 2005 instead of its target of 10%. Not achieving this target in any given year increases the risk that all properties will not be inspected by 2008 as required.

### *Application of statistical measures reveal potential inaccuracies in assessed property values*

As part of the process of determining market values, the Agency relies on the knowledge of its assessment staff to ensure that the assessed market values are accurate. In addition to the review performed by assessment staff, the Agency also uses accepted statistical measures to determine whether assessed market values are accurate. When the Agency applied these statistical measures to the 49 municipalities in the Province which had sufficient property sales to apply the measures, it was revealed that:

- 5 municipalities had poor assessment quality;
- 4 municipalities lacked good appraisal uniformity in properties with similar characteristics; and
- 29 municipalities had high value properties under-appraised.

### *Database anomalies*

The Agency runs annual exception reports to identify database anomalies. For example, in December 2003, 3,243 anomalies were identified while in December 2004, 7,627 anomalies were identified. There was no indication, during our review, that these anomalies were being addressed. The official in charge of quality control at the Agency expressed frustration by the lack of response from the Agency's offices in addressing these anomalies.

## 2.20 Municipal Assessment Agency

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### 2. Expenditure issues

#### *Travel expenses non-compliant*

Although the Agency has adopted Government's travel policy, we found instances of non-compliance. For example, during the period May 2003 to January 2005, we found:

- airfare and meals for spouses of Board members and employees, totalling \$1,930 was claimed;
- “business lunches” totalling \$301 were claimed when only Agency officials were present;
- expenses exceeded allowable limits by \$982 for meal per diems; and
- meal per diems totalling \$348 were claimed when meals were already provided.

#### *Consultant hired without an objective evaluation*

In 2003, without the use of an objective means of evaluation such as the Province's *Consultant's Guidelines*, the Agency selected a consultant to design and implement a new management structure. Officials indicated that the consultant was selected as a result of previous work. This consultant received a total of \$81,000.

#### *Other expenditures non-compliant*

Other instances of expenditures which were not consistent with Government policy included:

- Golf fees for staff and Board - \$907;
  - Liquor for Board conferences and staff golf functions - \$505;
  - Christmas dinners for Board (including spouses) - \$3,952; and
  - Christmas luncheons for staff - \$305.
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## 2.20 Municipal Assessment Agency

### Findings

#### 1. Assessment Process

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##### Definitions

The following concepts are applied by the Agency in the assessment process:

- **Assessed value** is the fair market value determined by qualified assessors using standardized and acceptable assessment procedures.
  - **Market value** is that value being the amount which, in the opinion of the assessor, it (the property) would realize if sold on the open market by a willing seller to a willing buyer.
  - **Mass appraisal** is a concept used to ensure that taxation falls in a uniform manner, that properties with similar characteristics and circumstances are valued and therefore taxed comparably. Unless changes have occurred to a property, property is revalued at the base date based on market information programmed into the computer system.
  - **Uniformity** means that using standardized and acceptable assessment procedures, properties with similar characteristics should be similarly valued.
  - **Base date** is the benchmark date at which properties are valued. The base date is set at revaluation and it occurs every three years. The base date that is currently in use by the Agency is January 2002 and it is being used for the 2004, 2005, and 2006 taxation years.
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##### Description

Municipalities that decide to implement a property tax system as a revenue source are required to have all property assessed in accordance with the *Assessment Act*.

Each parcel of property is assessed as either:

- residential;
  - commercial;
  - partly both;
  - commercial tenant (where one exists)
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## 2.20 Municipal Assessment Agency

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During a visit to a property, field assessors at the Agency collect information on the property which is later entered into the Agency's Integrated Assessment System (IAS) database. Data is processed using the IAS Database where data collected is compiled, evaluated, analyzed and compared. All assessments are reviewed for accuracy.

When the assessed values have been finalized the assessment roll for each municipality is prepared. Property owners are notified of the assessed value and can appeal if they disagree.

Supplementary rolls are printed four times per year and contain changes to property in excess of \$1,000 that have resulted from requests from municipalities for assessments since the last assessment (or supplementary) roll.

Assessment inspections are performed:

- when property is sold;
- when an appeal is received because a property owner disagrees with market value assigned to his property;
- when supplementary assessment requests are received from a municipality; and
- at least every 10 years as specified in the *Assessment Act*.

Revaluation of all property is carried out every three years and relies on the information collected during inspections along with other market data. A revaluation is currently in process in 2005, based on data collected since the last revaluation in 2002. The 2002 revaluation is effective for 2004, 2005 and 2006 assessment years and the 2005 revaluation is effective for 2007, 2008 and 2009 assessment years.

We examined the following aspects of the Agency's Property Assessment process:

1. Sales Visitation policy
  2. Field Data Collection policy
  3. Guidance to assessors
  4. 10 year inspections
  5. Quality Control
  6. Database accuracy
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## 2.20 Municipal Assessment Agency

### Our Findings

**Property Sales  
Inspections not  
completed**

#### 1. Sales visitation policy

Maintaining the IAS database and producing the assessment roll requires that sales data be collected on any property sold. The Agency created the Sales Visitation policy to accommodate the need to collect this information.

Although the policy does not provide specific time frames for completion of sales inspections, it does require that all properties where sales have occurred be inspected as soon as possible after the sale date. We found that:

- Nearly half of the 20,055 properties sold from 2002 to 2005 were never inspected. It is important that these sales inspections be completed to assist in ensuring that the three year revaluations, which rely on market information, are accurate.
- Sales data is not collected on properties that are inspected as a supplementary rather than as a property sale inspection.
- A control in the database to prevent the recording of a sale without sale date has been overridden by the creation and use of a plug date. This allows a sale to be recorded without recording the vital sale data component.
- Inspections are incomplete because the interiors of properties are not being inspected as is required for all types of residential inspections.
- Audits (*i.e.*; supervisory reviews) are not being performed.

The following table outlines the elapsed time between when a property was sold and when it was inspected:

Elapsed time	Total		Eastern Regional Office		Central Regional Office		Western Regional Office	
No visits	9,250	46%	4,499	52%	2,073	33%	2,678	52%
0 to 6 months	3,392	17%	1,584	18%	1,223	20%	585	11%
6 to 12 months	3,203	16%	1,160	13%	1,288	21%	755	15%
12 to 24 months	3,504	17%	1,260	14%	1,339	22%	905	18%
> 24 months	706	4%	225	3%	272	4%	209	4%
Total	20,055	100%	8,728	100%	6,195	100%	5,132	100%

## 2.20 Municipal Assessment Agency

**Full  
Inspections  
not being  
performed as  
required**

### 2. Field Data Collection policy

The Field Data Collection policy requires that all inspections have a full on-site inspection which includes interior as well as exterior inspection and the measurement of all buildings on the parcel of land. The Field Data Record is the document used by assessors to collect inspection information. A portion of the document allows the assessor to assign a code to the method used to collect the information.

The various entrance codes are summarized in the following chart. Any entrance code other than “Full Inspection” violates the Agency's Field Data Collection policy.

Entrance Code	2002	2003	2004	Total	%
Full Inspection	4,439	6,000	5,151	15,590	26.13
Info at the Door	328	576	772	1,676	2.81
Outside Inspection	10,967	16,663	14,164	41,794	70.05
Refusal	213	124	69	406	0.68
Dispensed with on-site inspection	-	-	20	20	0.03
No code entered	-	-	181	181	0.30
<b>Totals</b>	<b>15,947</b>	<b>23,363</b>	<b>20,357</b>	<b>59,667</b>	<b>100.00</b>

Contrary to this policy, our findings reveal that approximately 74% of all property inspections performed from 2002 to 2004 was performed outside of the residence. In other words, only 15,590 of the 59,667 properties inspected in these three years are recorded as having a full inspection.

In cases where the property owner is not at home at the time of the inspection a notice is left so the property owner can contact the Agency to arrange for another visit. However, there is no follow up by the assessor; the onus is left on the property owner to contact the Agency.

Neglecting to perform full inspections increases the risk that complete information on a property is not being collected to determine the market value of that property. Since property owners are likely to appeal if they believe that their property is overvalued, there is a greater risk that properties are undervalued, and therefore less tax revenue collected for the municipalities.

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## 2.20 Municipal Assessment Agency

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### *Guidance to Assessors not provided*

#### *3. Guidance to Assessors*

During our review, Agency staff indicated that there was a lack of guidance provided to the assessors. There are no manuals or procedures directing assessors how to complete the forms used to collect inspection information. This includes guidance on evaluating the characteristics or effective age of a property, which may have an impact on the assessed value of a property.

The result of this is inconsistency in completing assessment forms and therefore inconsistency and lack of uniformity in the assessed values of properties.

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### *10 Year Inspections*

#### *4. 10 Year Inspections*

The *Assessment Act* requires that all properties be visited for inspection at least once every 10 years. As this portion of the *Act* became effective in 1998, the Agency has until 2008 to ensure that all properties have been visited in 10 years. In accordance with the Agency's Data Tracking policy, these visits are exclusive of visits required for other purposes. To satisfy the requirements of this policy, the Agency has a plan in place to inspect 10% of properties each year, starting alphabetically by street in each municipality. However, supplementary inspections and appeals inspections take precedence over the 10 year visits.

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### *Quality Control measures used by Agency*

#### *5. Quality Control*

As part of the process of determining market values, the Agency relies on the knowledge of its assessment staff to ensure that the assessed market values are accurate. In addition to the review performed by assessment staff, the Agency also uses accepted statistical measures to determine whether assessed market values are accurate. These ratios test the Agency's success in performing uniform appraisals and promoting even distribution of the tax burden. To be reliable, the municipality needs at least 20 property sales for the period covered by the ratio analysis.

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## 2.20 Municipal Assessment Agency

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The Agency relies mainly on two of these ratios for quality information:

- **Coefficient of Dispersion (COD)** measures uniformity and is the average percentage deviation from the median. Low COD's (15.0 or less for urban areas and 20.0 or less for rural areas) tend to be associated with good appraisal uniformity; and
- **Price Related Differential (PRD)** measures distribution of the tax burden across properties in a municipality:
  - If the PRD is greater than 1.03, appraisals are regressive. In this case, high valued properties are under appraised and less tax is paid on these properties than should be paid.
  - If the PRD is under 0.98, appraisals are progressive. In this case, high valued properties are over appraised.

In addition, assessment information is considered reliable when the overall level of appraisal for all properties in an area is within 10%, above or below, the median assessed value.

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### *Assessed property values inaccurate*

Our review of the application of these ratios on the 2002 revaluation found:

- the Province, overall, has a PRD of 1.0308, which means that high valued properties are under appraised and less tax is paid on these properties than should be paid.
  - Of the 49 municipalities where there were sufficient property sales to apply the ratios:
    - 5 of 49 were outside of the allowable range (i.e.; 10%, above or below) of the Median assessed value - which indicates poor assessment quality;
    - 4 of 49 had COD ratios greater than 20 - which means that these municipalities lack good appraisal uniformity in properties with similar characteristics;
    - 29 of 49 had PRD ratios higher than 1.03 or were regressive, which means that high valued properties are under appraised.
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## 2.20 Municipal Assessment Agency

### **Database Anomalies not Addressed**

#### *6. Database accuracy*

Exception reports, which provide detail of anomalies in the database, are run annually by the Agency's quality control specialists and sent to managers for remedial action. There was no evidence during our review that these anomalies were addressed.

The following table shows the results of exception reports for December 2003 and December 2004. The quality control specialists expressed frustration by the lack of response from the Agency's offices.

Month	Eastern Regional Office	Central Regional Office	Western Regional Office	Total
December 2003	1,348	1,116	779	3,243
December 2004	3,297	2,271	2,059	7,627

## **2. Review of Expenditures**

### **Description**

Although the Agency has adopted Government's policies in relation to Agency expenditures, our review identified instances where expenditures did not comply with Government policy or were inconsistent with Government practice.

### **Our Findings**

#### **Non-compliance with Travel Policy**

##### *1. Travel*

We reviewed travel claims from May 2003 to January 2005, and found the following instances of non-compliance with Government's travel policy:

## 2.20 Municipal Assessment Agency

Issue	Instances	Amount
Expense claims include airfare and meals for Board members' spouses	7	\$1,930
Meals claimed exceed allowable per diems	11	\$982
Agency expenses claimed through travel claims which are not travel or entertainment; thereby compromising control over purchasing, expenses and the budget.	3	\$661
Board Members and employees claimed for meal per diems when the meals were already provided by the Agency	7	\$348
"Business Lunch" expenses claimed when only Agency officials were present.	9	\$301

**Consultant  
hired without  
objective evaluation**

### 2. Consultant

The Agency is changing the management of its operations from geographical (based on regions within the Province) to functional (based on the Agency's primary functions of residential and commercial assessments, etc.)

In 2003, without the use of an objective means of evaluation such as the Province's *Consultant's Guidelines*, the Agency selected a consultant to design and implement this new management structure. Officials indicated that the consultant was selected as a result of previous work. This consultant received a total of \$81,000 for this work.

**Expenditures  
not consistent  
with  
Government  
Policy**

### 3. Other expenditures

Our review identified other instances of expenditures not being consistent with Government policy as follows:

Issue	Instances	Amount
Other expenditures paid by Agency which were not consistent with Government policy:		
- Golf fees for staff and Board	5	\$907
- Liquor for Board conferences and staff golf functions	3	\$505
- Christmas Dinner for Board (including spouses)	2	\$3,952
- Christmas luncheon for staff	2	\$305

## 2.20 Municipal Assessment Agency

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### Recommendations

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#### Property Assessment Issues

*The agency should:*

- *plan the timing and location of inspections to ensure policy and legislation requirements are being met and resources are used efficiently;*
  - *conduct sales inspections on a more timely basis;*
  - *conduct data collection in accordance with policy;*
  - *develop written instructions to direct assessors in completing the Field Data Record and other collection documents;*
  - *continue to address potential issues revealed as a result of applying the quality control measures; and*
  - *ensure that database anomalies identified in the Exception reports are addressed promptly and that the action taken is recorded.*
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#### Expenditures

- *ensure that the adopted policies are followed when expenses are incurred/claimed; and*
  - *apply an objective process for selecting future consultants.*
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### Agency's Response

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*We welcome the input of the Auditor General as we work to improve the assessment service in the Province. Newfoundland and Labrador provides a number of unique challenges for any assessment service. In the Province there is no title registration system, no universal property tax system and municipalities have the authority to stop levying property taxes. These issues present challenges and we have developed systems to work efficiently within this environment. The Municipal Assessment Agency provides one of the lowest cost assessment services in Canada and we hope to continue to be both cost effective and efficient.*

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## 2.20 Municipal Assessment Agency

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### ***Property Assessment Issues***

*We acknowledge that our policy with respect to property inspections needs clarification to more clearly reflect the legislation, good assessment practice, and our current practice, all of which provide for an assessor to dispense with an inspection, when it has been determined there is no benefit to be obtained.*

*The Agency is committed to a sales investigation program for the 2007 revaluation. This program will see all sales used in establishing market values validated. To date, there are just over 20,000 sales that have been inspected or validated, with validation remaining to be completed on 7,000 additional sales. Our reinspection program continues and since April 1, 2005 an additional 11,000 inspections have been completed and we are on target to complete a reinspection of all properties within the 10 year time frame.*

*We will document our process to complete data collection and provide additional training to staff, where necessary, to ensure consistency.*

*The Agency uses statistical measures to highlight areas for additional review or investigation. Where the sample size is reflective of the market studied, statistical tools can be a measure of assessment quality. In the situations noted, we have reviewed the results and are confident that the valuations are at market. In many municipalities, there is neither the number of sales nor the representative sample to apply statistical tools. As such, we rely on these tools on a provincial basis where the sample is appropriate. We are reviewing our processes to ensure we continue to meet the measures of a quality assessment program.*

*The Agency will review the issue of database anomalies to ensure any issues that affect valuation are addressed and to establish procedures to document the actions taken.*

### ***Expenditures***

*The Board appreciates the input of the Auditor General and will review its policy and practices regarding all expenditures. The Agency is committed to review its procedures to ensure that all Agency policies are followed related to expenses. We appreciate the Auditor's comments related to selecting consultants and agree that transparency requires a clear and objective process for selecting consultants.*

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