



Arlington County, Virginia

Internal Audit of the Real Estate Assessment Appeals Process Calendar Year Ended December 31, 2014

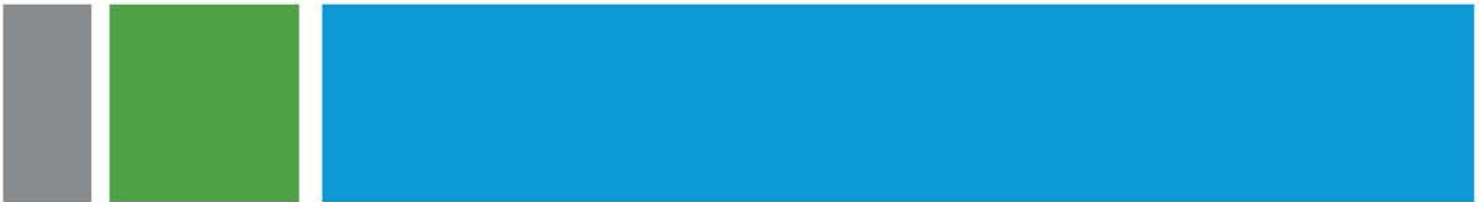


Table of Contents

Transmittal Letter	1
Executive Summary	2 - 9
Background	10 - 12
Objectives and Approach	13
Process Maps	14 - 17



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August 18, 2015

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Pursuant to the contract and related statement of work for Arlington County, Virginia ("the County"), we hereby present the internal audit of the Real Estate Assessment Appeals Process. Our report is organized in the following sections:

Executive Summary	This section gives a background summary of the function and a detailed description of the issues noted during our internal audit, recommended actions, and management's corrective action plan, including the responsible party and estimated completion date.
Background	This section provides an overview of the function within the process, pertinent operational control points and related compliance requirements.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Process Map	This section illustrates process maps, which identifies data flow, key control points and any identified control gaps.

We would like to thank the staff and all those involved in assisting RSM US LLP in connection with the internal audit of the Real Estate Assessment Appeals Process.

Respectfully Submitted,

RSM US LLP

RSM US LLP

Executive Summary

Executive Summary

Property taxes are a primary source of revenue for Arlington County, accounting for approximately 50% of the County's revenue for fiscal year ended June 30, 2014. The County's real estate tax base (the value of real property) is approximately divided between 49% commercial and 51% residential. The Department of Real Estate Assessments ("DREA") is responsible for the annual appraisals and property tax appeals process. Total assessed value of taxable real property for the County was \$66.4 billion for fiscal year ended June 30, 2014.

The real estate assessment and appeals function is governed by the Code of Virginia Title 58, Chapter 32 and Arlington County Code, Chapter 20. The appeals process is initiated when a taxpayer disagrees with the value of their property established by the County's property assessor. The burden of proof is on the taxpayer to show the assessment is incorrect, either based on erroneous input data regarding the property, comparable sales values, or un-equitable appraisal method. The taxpayer appeals to DREA for an administrative review. The Appellant also has the right to appeal to the Board of Equalization ("BOE") if they disagree with the value established by DREA. An appeal may also be submitted to the BOE while an administrative review is in process to preserve the right to a secondary appeal. If the taxpayer disagrees with the Board of Equalization's decision, their final option is to file suit in Circuit Court.

Appeals that resulted in a reduced property assessment and a tax abatement, or reduction in taxes due, are identified by DREA through a report generated in the Real Estate Assessment System ("REAS") and is sent to the Treasurer's Office for processing. This process, referred to as the relief order process, is conducted on a monthly basis.

The primary objectives of this audit were to evaluate the current real estate assessment appeals process and the adequacy of related internal controls, including the process for tracking appeals and resulting modifications, required approvals, and policies and procedures in place. For the purposes of this project, the review focused on what are considered "administrative appeals" or "review appeals" in its current state and did not look into how the appeals are handled by the Board of Equalization. The audit period for transactional testing was calendar year 2014 January 1st through December 31st.

The following table indicates the number of administrative appeals received by calendar year:

Calendar Year	# of Residential Appeals	# of Commercial Appeals	Total
2013	155	83	238
2014	185	146	331
2015*	460	128	588

**The data for calendar year 2015 is available even though the year is not complete, as all administrative appeals must be filed by the first Monday in March (March 3, 2015 for fiscal year 2015) and April 15th for BOE appeals.*

A detail of the issues identified and their relative risk ratings is provided below, including recommendations and management response(s). We have assigned relative risk factors to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the operations. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

- *High Risk Items* are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- *Moderate Risk Items* may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- *Low Risk Items* could escalate into operational issues, but can be addressed through the normal course of conducting business.

Executive Summary – continued

Issues	Risk Rating
1. Tax Abatement Processing and Approval	High
<p>On a monthly basis, DREA identifies properties that require a tax abatement, processed as a credit to the Taxpayer's account, by running a report from REAS. The DREA Director reviews and approves the properties and the calculated relief amounts and submits the listing to the Treasurer's Office for processing. Currently, DREA does not verify that tax abatements are processed timely and for the accurate amount. DREA would only be notified of delays in processing if the Taxpayer/Appellant contacted the Department or the Treasurer's Office. We were unable to validate the completeness and accuracy of the tax abatements submitted to the Treasurer's Office for processing from the appeals tested, as DREA does not obtain and retain evidence that the tax abatements were processed by the Treasurer's Office.</p> <p>Without signature, there is no evidence that the relief order was reviewed to ensure duplicate and/or fictitious entries are not processed and that tax abatements are processed for the correct amounts.</p>	
Recommendation	
<p>We recommend that DREA request a listing of processed tax abatements from the Treasurer's Office subsequent to processing as evidence of completion. DREA should validate accuracy of processing by comparing this list to the relief package sent to the Treasurer's Office and sign off to evidence this review.</p>	
Management's Response	
<p>Response: At the conclusion of a property appeal either by DREA or the Board of Equalization, the revised assessment and new tax levy calculation is forwarded to the Treasurer's Office for processing. DREA management will meet with the Treasurer or her representative to discuss a process benefitting both offices to obtain and retain evidence that the tax abatements were processed by the Treasurer's Office.</p> <p>Responsible Party: DREA</p> <p>Estimated Completion Date: March 1, 2016</p>	

Executive Summary – continued

Issues	Risk Rating
2. Monitoring of Appeals and Tax Abatements Process	Moderate
<p>We selected 20 (8 commercial and 12 residential) appeals for testing and noted the following:</p> <p><u>Monitoring and Maintenance of Appeal Documentation</u> For 2 out of 8 commercial appeals reviewed, the internal comments field in REAS indicated that a signed <i>Covenant Not to Sue</i> letter was received from the Appellant; however, the signed letter was not included in the documents in REAS. A <i>Covenant Not to Sue</i> letter is offered to the Appellant in commercial appeals where the review or BOE hearing results in reduction of the assessment. The draft letter (unsigned) that was sent to the Appellant was included in the case, but not the signed letter that would support closing the case.</p> <p>Currently, it is not a requirement to attach signed <i>Agreement Letters</i> or <i>Covenant Not to Sue</i> letters to the appeal cases in REAS. However, if the internal comments indicate the signed letter was received, without this documentation, it could not be immediately identified that the case should have been closed. Additionally, if a review case is appealed to the BOE, the Administrative Specialist is responsible for adjusting the property assessment, if applicable, in REAS, reviewing the case and closing the case. There is not a secondary review to ensure all documents are included in the case file or validate that property assessment adjustments are accurate based on the BOE decisions.</p> <p>The lack of monitoring and secondary review requirements could cause incomplete appeal records.</p> <p><u>Monitoring of Open Cases</u> For 1 out of 8 appeals that resulted in a decreased assessment, there was a 6 month delay between the BOE decision and the processing of the relief order to apply the tax abatement. This was a commercial appeal, in which the BOE hearing and decision occurred on July 9, 2014, and the processing of the relief order to apply the tax abatement occurred in December 2014. The Appellant submitted both an administrative review appeal and a BOE appeal. The administrative review for this case resulted in a confirmation of the original property assessment, but the BOE case resulted in a \$1,557,000 decrease to the property value. BOE rulings supersede the results of an administrative review.</p> <p>As the property under review contained multiple economic units, the Administrative Specialist provided the BOE Order (result of hearing) to the commercial Appraisers for review and allocation of the property value decrease to each economic unit. Open cases were not properly monitored by the appropriate Appraiser or Supervisor to ensure that the case was closed in a timely manner.</p> <p>Without proper monitoring controls, cases may remain open for extended periods of time and could cause inaccurate County financial records.</p> <p><u>Monitoring of Appellant Contact</u> For 2 of 12 residential appeals reviewed, the "Owner Reached Date," a date in REAS that documents when the Appellant was contacted, was greater than 10 days of receipt of the appeal application. For these 2 appeals, the Appellants were contacted within 23 and 20 days, which is past the 10 days requirement documented in the appeal application. Per inquiry with the Residential Supervisors who are responsible for monitoring the appeal process and ensuring compliance with the 10 day requirement, the system does not document the date(s) the Appraisers attempted contact.</p> <p>Early in calendar year 2015, internal procedures changed and Appraisers are required to log the dates of attempted contact in the "internal notes" field within REAS. Currently, there is not a field other than "internal notes" to capture this information. Therefore, there is not a reporting capability in REAS to monitor against the 10 day requirement other than to individually review each open case. If Appraisers are unable to capture attempted contact, Residential Supervisors are unable to monitor this requirement to ensure compliance.</p>	

Executive Summary – continued

Issues	Risk Rating
2. Monitoring of Appeal and Tax Abatements Process - <i>Continued</i>	Moderate
<p><u>Monitoring and Evaluation of the Tax Abatement Process Efficiency and Effectiveness</u> Through inquiry and observation, we noted that DREA does not monitor and evaluate the volume, value and results of tax abatements requests initiated, approved and processed.</p> <p>Not monitoring and evaluating the results of the tax abatement process (by classification and in total) overlooks a management tool that would help the County assess the performance and accuracy of tax abatement process and staff, and provide insight into the operation of the valuation process.</p>	
Recommendation	
<p>We recommend the following:</p> <p><u>Monitoring and Maintenance of Appeal Documentation</u></p> <ul style="list-style-type: none"> • Subsequent to closing a review case, the Administrative Specialist should conduct a documented review of the case file in REAS and ensure that all necessary documents are attached to the case. • Required case documentation should include: <ul style="list-style-type: none"> ○ Appeal applications and supporting documentation ○ <i>Letter of Authorization</i>, if applicable ○ Original and updated property worksheet ○ Signed <i>Covenant Not to Sue</i> letter (if obtained for commercial) or <i>Agreement Letter</i> (residential) ○ BOE Order, if applicable • If the appeal is sent to the BOE, once the Administrative Specialist updates the case for the results of the hearing and closes it in REAS, a secondary individual should review the case and attached documents to ensure all required documentation is maintained. <p><u>Monitoring of Open Cases</u> In order to prevent future delays in closing cases or processing relief orders, the Administrative Specialist should run a report from REAS of open cases and cases that have “BOE Review Complete” status on a monthly basis. All delays should be reviewed and discussed with the appropriate Supervisor and/or Appraiser. As needed, delays should be escalated to the DREA Director. The monthly review should be evidenced via signature and date.</p> <p><u>Monitoring of Appellant Contact</u> DREA should review the REAS system capabilities and determine if multiple fields can be created to document the date(s) the Appraiser attempted contact with the Appellant. Additionally, DREA should review reporting capabilities in REAS to ensure the Residential Supervisors are able to efficiently monitor contact activity for timeliness against the 10-day requirement. Once system capabilities are determined, monitoring requirements should be documented, formalized in a procedure and distributed accordingly.</p> <p><u>Monitoring and Evaluation of the Tax Abatement Process Efficiency and Effectiveness</u> DREA should review the REAS system capabilities for the ability to report total tax abatements processed, in number and value, in total and by classification. This reporting and review should be performed on, at least, an annual basis. Management should monitor and evaluate tax abatements processed in total and by classification as a management tool to assess the accuracy of the valuation process and the efficiency and effectiveness of the tax abatement process.</p>	

Executive Summary – continued

Issues	Risk Rating
2. Monitoring of Appeals and Tax Abatements Process - <i>Continued</i>	Moderate
Management's Response	
<p>Response:</p> <p><u>Monitoring and Maintenance of Appeal Documentation</u> Prior to closing a review case, the Administrative Specialist will ensure all the necessary documents are attached to the case file, including the following:</p> <ul style="list-style-type: none"> a) Appeals applications and supporting documentation b) Letter of Authorization, if applicable c) Original and updated property worksheet d) Signed Agreement Letter (residential) or signed Covenant not to Sue (if obtained for commercial) e) BOE order, if applicable, and results of the hearing <p>A secondary review of adjusted assessments and verification of appropriate documents will be completed by the Director on all appeals cases prior to relief and supplemental orders being forwarded to the Treasurer. Processing of the final abatements posted by the Administrative Specialist will be approved by the Director of Assessments by signing the relief orders.</p> <p><u>Monitoring of Open Cases</u> The Administrative Specialist will continue entering the adjusted numbers into the ProVal system with the correct distribution between land and improvements. Allocation assistance may be obtained from the appropriate supervisor, especially when economic units are involved with multiple parcels. On a monthly basis, the Administrative Assistant will run a report from REAS of open cases and cases that have "BOE Review Complete". All delays will be reviewed and discussed with the appropriate Supervisor and/or Appraiser. As needed, delays will be escalated to the Director. The monthly report will be signed by the Supervisor, Appraiser or Director as appropriate.</p> <p><u>Monitoring of Appellant Contact</u> Contacting property owners or their representative after an appeal is filed will be monitored. Within 10 days of being assigned an appeal, the appraiser will attempt to contact the owner or their representative. Internal comments will be posted within REAS tracking those attempts. Currently the REAS system functionality does not accommodate automatic tracking of open appeal cases. Supervisors will continue manually tracking each appraisers open cases on a weekly basis.</p> <p><u>Monitoring and Evaluation of the Tax Abatement Process Efficiency and Effectiveness</u> Tax abatements are tracked by property classification. In recent years DREA has informally followed adjusted assessments for different types of properties. As a result of this audit and questions asked, DREA has developed a report that tracks adjustments by property class. This report will be utilized annually as part of quality control.</p> <p>Responsible Party: DREA</p> <p>Estimated Completion Date: March 1, 2016</p>	

Executive Summary – continued

Issues	Risk Rating
3. Department Level Procedures	Moderate
<p>DREA posts the appeal process on the County website, has an internal "Appeals Process" procedural document, and has a "REAS Online User Manual," which provides an overview of the Real Estate Assessment System. It was noted during our walkthrough that the "Appeals Process" document was developed in 2009 and has only had minor updates since then.</p> <p>Upon review of the "Appeals Process" procedural document, the following was identified:</p> <ul style="list-style-type: none"> • The procedural document identifies the appeal options the Appellant has based on the property type, but does not include the specific documentation requirements for residential versus commercial appeals or differences in the appeal process. Some of these documentation requirements are identified on the "Application for Review of Assessment." However, it is not included in the procedural document. • Though the approval process for property assessment adjustments is included in the procedural document, the roles are currently incorrect. For example, the Assistant Director role no longer exists and responsibilities are either performed by the Supervisor or the Director. • The procedural document does not identify the monitoring requirements for the appeals process. This includes monitoring open cases to ensure they are closed and processed properly, monitoring Appellant contact, and monitoring and evaluation of relief process efficiency and effectiveness. • The monthly relief order, or tax abatement process, is not documented. This includes the desktop procedures for REAS, documenting the review and approval process and verifying that relief orders are processed accurately by the Treasurer's Office. • The procedural document does not include how duplicate cases are to be identified or reviewed. Per discussion with the Administrative Specialist, duplicate entries are possible as Appellants can submit a review hearing online and via mail. There can also be multiple cases in REAS by Real Property Code ("RPC") due to "own motion" cases, which are Department-identified adjustments to the property assessment. Per our review of the entire population of administrative appeals (331 administrative appeals) for calendar year 2014, we did not note any duplicate review appeal cases. • Currently there are no procedures requiring review of the application deadline dates on the manual application forms or the pre-populated application deadline date in REAS, or updating of the deadline date, if needed. Through our transactional testing we identified 6 appeals that had 2 applications in the case file in REAS as supporting documentation. One was a manual application received via mail (hardcopy) and scanned as support to the REAS file and one was a system generated application, resulting from manual entry into REAS. The applications that were sent via mail had the correct pre-populated application deadline date of March 3rd. The system generated application had a pre-populated deadline date of March 1st. Although, there were 2 applications with differing deadline dates, there was not duplication of the actual application entered into REAS. Per inquiry with the Administrative Specialist, the pre-populated deadline date in REAS was likely not updated for the current year, as the deadline is usually March 1st. <p>Additionally, the REAS Online User Manual is out of date and incomplete. Though the procedural document includes an overview of the system and the workflow, it does not include desktop procedures or internal requirements on how fields need to be completed or which documents have to be included in the case file.</p> <p>A lack of standard procedures allows for individual interpretation of how to ensure compliance with existing requirements and an inability to enforce undocumented procedures. Also, in the event of employee turnover, addition of staff, or other interruption in normal operations, a lack of well documented department procedures increases the risk of miscommunication, error, and internal control failure.</p>	

Executive Summary – continued

Issues	Risk Rating
3. Department Level Procedures - <i>Continued</i>	Moderate
Recommendation	
<p>We recommend that DREA perform the following:</p> <ul style="list-style-type: none"> • Update the “Appeals Process” procedural document and the REAS Online User Manual to reflect current procedures, documentation requirements and roles. • Update the procedural document to include the following monitoring procedures, at a minimum: <ul style="list-style-type: none"> ○ On a monthly basis, the Administrative Specialist should run a report of cases that are pending review approval from Supervisors and have been in the current status for greater than 10 days. Cases should be reviewed with the Supervisors. ○ On a monthly basis, the Supervisors should run a report of all open cases that the Appraiser has not yet attempted contact with the Appellant (pending system capabilities). ○ On a monthly basis, the Administrative Specialist should run a report of cases with the status “BOE Review Complete” and identify cases that have remained in that status for greater than 20 days. All discrepancies should be reviewed with the appropriate Supervisor and Appraiser. ○ Subsequent to submitting the relief order to the Treasurer’s Office, DREA should obtain evidence of the tax abatements processed and reconcile the transactions to the relief order. ○ On at least an annual basis, DREA should review total tax abatements processed, in number and value, in total and by classification for tax abatement process efficiency and effectiveness. ○ On a monthly basis, the Administrative Specialists should run a report of cases by RPC, to ensure duplicate cases have not been entered in the system. Any duplicates should require further review. • Implement a process to review the application deadline date posted on the manual forms and pre-populated in REAS, and update, if needed. • Periodically review the procedural document, at a minimum annually, to ensure any updates are captured. <p>Once the procedural document has been updated and monitoring requirements have been defined, DREA should conduct training classes on the new procedures for all staff.</p>	

Executive Summary – continued

Issues	Risk Rating
3. Department Level Procedures - <i>Continued</i>	Moderate
Management's Response	
<p>Response: The "Appeals Process" procedural document will be updated to reflect current procedures, documentation requirements and roles, to include the following:</p> <ol style="list-style-type: none"> 1. The specific documentation requirements for residential versus commercial appeals or differences in the appeal process. 2. Current roles and responsibilities. 3. Monitoring requirements for the appeals process to include monitoring open cases to ensure they are closed and processed properly, monitoring Appellant contact, and monitoring and evaluation of relief process efficiency and effectiveness. 4. The monthly relief order or tax abatement process, including desktop procedures for REAS, and documenting the review and approval process, and verifying that relief orders are processed by the Treasurer's Office. (The Department will work with the Treasurer's Office on a verification process for relief orders, which will be documented when complete.) 5. Documentation on how duplicates cases are to be identified and reviewed. 6. Procedures requiring review of the application deadline dates, including measures taken before appeals can be submitted to ensure that the deadline dates match on the posted manual forms and the pre populated REAS forms. <p>Additionally, DREA will work towards updating the REAS Online User Manual to include the following:</p> <ol style="list-style-type: none"> 1. Desktop procedures or internal requirements on how fields need to be completed 2. Documents to be included in the case file <p>Responsible Party: DREA</p> <p>Estimated Completion Date: March 1, 2016</p>	

Background

Background

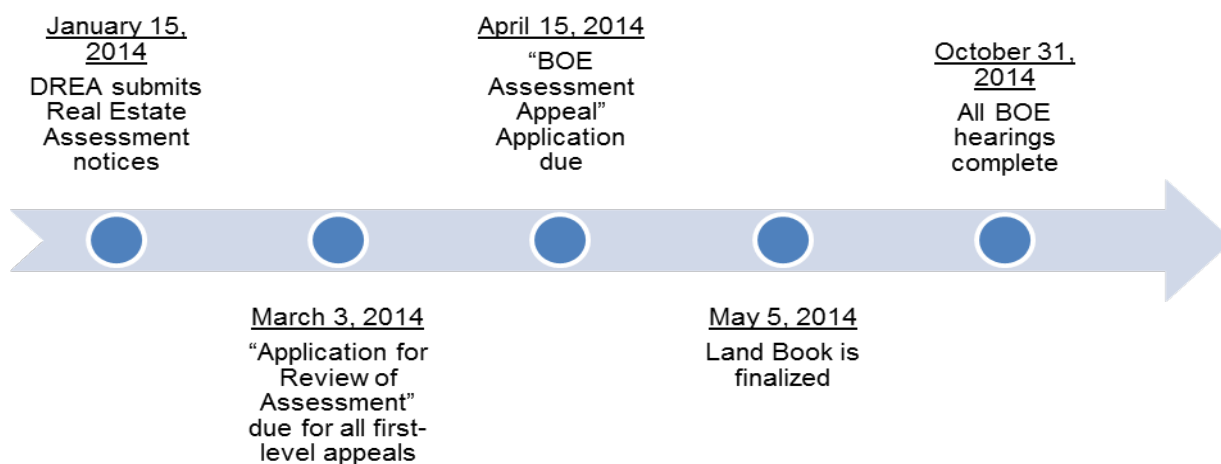
Overview

Property taxes are a primary source of revenue for Arlington County, accounting for approximately 50% of the County's revenue for fiscal year ended June 30, 2014. The County's real estate tax base (the value of real property) is approximately divided between 49% commercial and 51% residential. The Department of Real Estate Assessments is responsible for the annual appraisals and property tax appeals process. Total assessed value of taxable real property for the County was \$66.4 billion for fiscal year ended June 30, 2014.

Appeal Process

The real estate assessment and appeals function is governed by the Code of Virginia Title 58, Chapter 32 and Arlington County Code, Chapter 20. The appeals process is initiated when a taxpayer disagrees with the value of their property established by the County's property assessor. The burden of proof is on the taxpayer to show the assessment is incorrect, either based on erroneous input data regarding the property, comparable sales values, or un-equitable appraisal method. The taxpayer appeals to DREA for an administrative review. The Appellant also has the ability to appeal to the BOE if they disagree with the value established by the Appraiser. An appeal may also be submitted to the BOE while an administrative review is in process to preserve the right to a secondary appeal. If the taxpayer disagrees with the Board of Equalization's decision, their final option is to file suit in Circuit Court.

The appeal timeline for calendar year 2014 is provided below.



For the purposes of this project, our review focused on "administrative appeals," also known as "review appeals." Within our sample selection, for review cases that also had a BOE appeal filed, we verified that the proper administrative processes and controls were followed.

The following table indicates the number of administrative appeals received by calendar year:

Calendar Year	# of Residential Appeals	# of Commercial Appeals	Total
2013	155	83	238
2014	185	146	331
2015	460	128	588

Background - continued

Appeal Process - continued

Once an appeal is received by DREA, it is routed to the assigned Appraiser in REAS. The Appraiser then contacts the Appellant to obtain additional information, and, if needed, schedule an inspection of the property. Subsequent to the inspection or review of Income and Expense information (commercial properties), the Appraiser documents the results in REAS, recommends a confirmation or reduction of the current assessment, and submits the case to the appropriate Supervisor for review. The Supervisor reviews the case and supporting documentation and either approves the recommendation and submits for Director level approval or sends back to the Appraiser for revision.

Once the DREA Director approves the recommendation for the property assessment, the case is submitted to the Administrative Specialist to prepare the appropriate notification letter. The type of notification letter sent to the Appellant is based on the result of the case (a confirmation of the property assessment or decrease in the property assessment) or if a BOE appeal was also submitted. For residential appeals, if a BOE appeal was filed and there was a reduction in the assessment, DREA requests documentation via a signed *Agreement Letter*. For commercial appeals, DREA offers a *Covenant not to Sue* letter to the Appellant if there was reduction in the assessment.

On a monthly basis, the appeals that resulted in a reduced property assessment are identified by DREA through a report generated in REAS and is sent to the Treasurer's Office for processing. The tax abatement process, also known as the relief order process, begins by an IT Analyst within DREA identifying all cases from the prior month in REAS that resulted in reduction in the property assessment and will require a tax abatement, or reduction, to the property account. The report is then provided to the DREA Director for review and approval. Once approved, the Treasurer's Office is provided a soft copy of the report and a signed hardcopy. DREA maintains a copy of the signed hardcopy that was stamped "received" by the Treasurer's Office, to evidence receipt of the relief orders.

The following table indicates the number and value of tax abatements processed by calendar year:

Calendar Year	# of Residential Tax Abatements	\$ Value of Residential Tax Abatements*	# of Commercial Tax Abatements	\$ Value of Commercial Tax Abatements*
2013	69	-\$306,649.80	42	-\$1,830,544.78
2014	63	-\$461,883.76	57	-\$3,668,234.00
2015	36	-\$259,791.98	14	-\$262,232.04

Calendar Year	# of Mixed-Use Tax Abatements	\$ Value of Mixed-Use Residential Portion Tax Abatements*	\$ Value of Mixed-Use Commercial Portion Tax Abatements*
2013	21	-\$7,151,264.03	-\$26,050.26
2014	8	-\$68,275,846.02	-\$14,076.50
2015	3	-\$16,897,204.54	-\$33,857.22

*Tax abatements are comprised of the result of review appeals, BOE appeals, and "own motion" adjustments (Department-identified, non-appeal adjustments)

Background - continued

REAS Online

In 2014, DREA automated the appeals process with the implementation of the Real Estate Assessment System. Through REAS, Appellants can submit an online application and supporting documentation to DREA. Within REAS, residential appeal cases are automatically routed to the appropriate Appraiser's queue based on the assigned neighborhoods, and commercial appeal cases are routed to the Commercial Supervisor's queue who then assigns the case to the appropriate Appraiser based on the type of the commercial property. REAS contains a workflow to allow cases to be sent back and forth between Appraiser, Supervisor and Director and document approvals. REAS is integrated with ProVal, the County's Computer-Assisted Mass Appraisal ("CAMA") system used to manage the mass appraisals. Adjustments to property assessments in REAS are integrated into ProVal automatically.

Despite the automated system capabilities, hardcopy appeal applications are still allowed to comply with Virginia State Code and must be manually entered in REAS. It is the responsibility of the Administrative Specialist to enter these cases and upload the supporting documentation in REAS. DREA Management estimates that hardcopy appeal applications received, which require manual entry, amount to 4% of total appeal applications received.

Objectives and Approach

Objectives and Approach

Objectives

The primary objectives of this audit were to evaluate the current real estate assessment appeals process and the adequacy of related internal controls, including the process for tracking appeals and resulting modifications, required approvals, and policies and procedures in place. For the purposes of this project, the review focused on what are considered “administrative appeals” or “review appeals” in its current state and did not look into how the appeals are handled by the Board of Equalization. The audit period for transactional testing was calendar year 2014 January 1st through December 31st.

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

During the first phase we performed the following:

- Conducted individual entrance conferences with representatives from the Department of Real Estate Assessments, including representatives from the Department of Management and Finance (“DMF”), to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Obtained copies of financial reports and other documentation deemed necessary and appropriate to gain an understanding of the existing control environment;
- Reviewed the applicable department level policies and procedures and the County’s code, where available, related to this internal audit;
- Conducted interviews with key personnel involved in the appeals process in order to obtain an understanding of the unique aspects of each process in order to perform our testing; and
- Developed flowcharts of the process(es), which are included in this report.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The Process and Control Evaluation phase of this engagement consisted of an evaluation of the design and testing of operating effectiveness, based on our understanding of the appeals process. We performed walkthroughs and detailed testing utilizing sampling and other auditing techniques to meet our audit objectives outlined above. The audit period for transactional testing was calendar year 2014 January 1st through December 31st. Specific procedures performed included:

- Performance of testing over the administrative appeals, resulting real estate assessment modifications and appropriate recording in REAS and ProVal (if applicable);
- Performance of testing of the monthly relief order (tax abatement) process, including verification of review and approval;
- Verification that supporting documentation was included in case files;
- Verification of Appellant contact within 10 day requirement;
- Review and assessment of monitoring requirements and procedures for the administrative appeal process;
- Assessment of segregation of duties related to the review and approval of appeal results;
- Review for compliance with department, County and State policies; and
- Review and recommendations for process improvements, were applicable.

Reporting

At the conclusion of this audit, we vetted the facts and exceptions noted with the Department of Real Estate Assessments, along with the Department of Management and Finance. The draft report was submitted to DMF, and then to the Auditee after review. An exit meeting was held with the Auditee and County Management to formally review and discuss the draft report and modify accordingly. Management’s corrective action plan with estimated completion dates has been provided and included in the report.

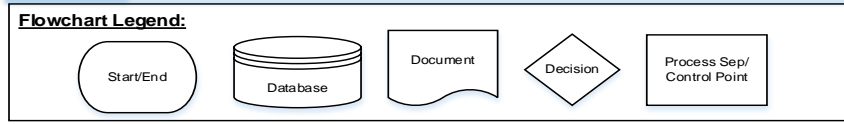
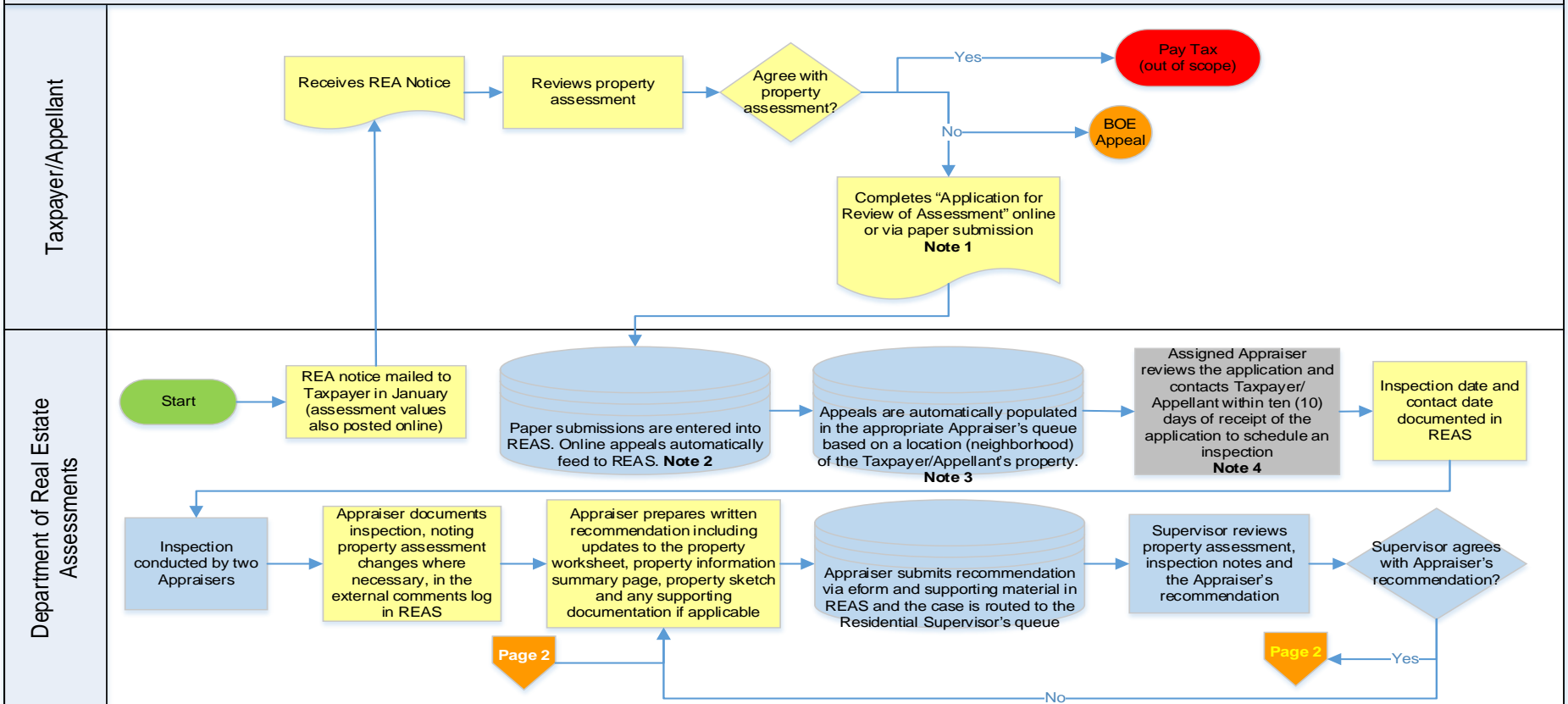
Process Maps

Process Maps

Arlington County Department of Real Estate Assessments Real Estate Assessments Appeal Process

Page 1 of 2

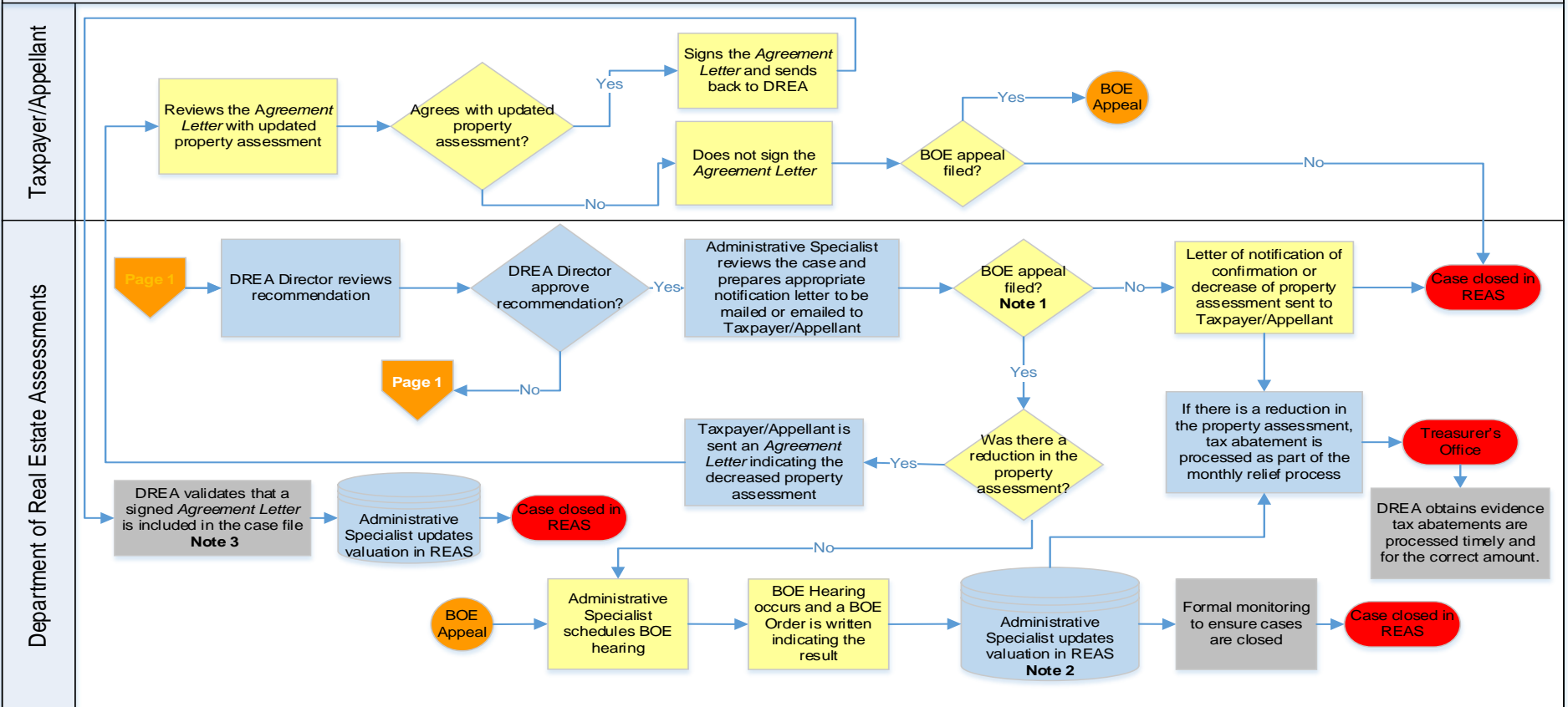
Residential



Note 1: The Application should include any information the Taxpayer/Appellant feels is relevant, but only a maximum of 5 comparable assessments may be submitted.
Note 2: Application and supporting documentation scanned and indexed in OnBase
Note 3: On an annual basis, a table is setup in REAS mapping the Appraisers to residential locations. If a residential location is not mapped to an Appraiser, the case will appear in the Administrative Specialist's "Unassigned" queue.
Note 4: Currently, there is not a reporting capability in REAS to monitor against the 10 day requirement other than to individually review each open case.

Process Maps - continued

Residential



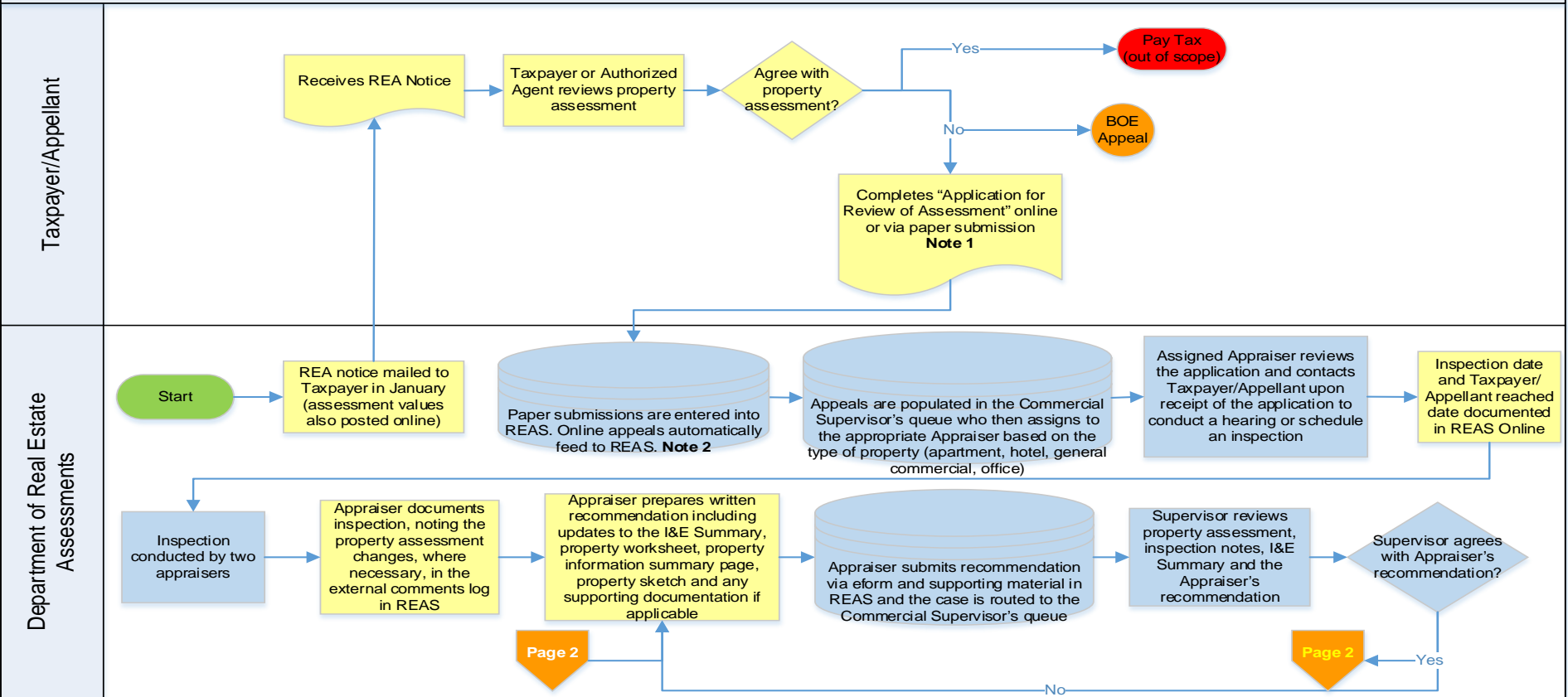
Flowchart Legend:



Note 1: BOE appeal must be filed by April 15th. If a BOE appeal is not filed, a letter is sent with the results of the administrative review and no further response or action is required from the Taxpayer/Appellant.
Note 2: If the BOE hearing results in a confirmation of the current tax assessment, the Administrative Specialist updates the result of the hearing in REAS and closes the case.
Note 3: Prior to closing the case, the Administrative Specialist verifies reviews the file in REAS. There is currently not a requirement to ensure signed letters are included in the case document.

Process Maps - continued

Commercial



Flowchart Legend:

- Start/End (Oval)
- Database (Cylinder)
- Document (Wavy-bottom rectangle)
- Decision (Diamond)
- Process Sep/Control Point (Rectangle)

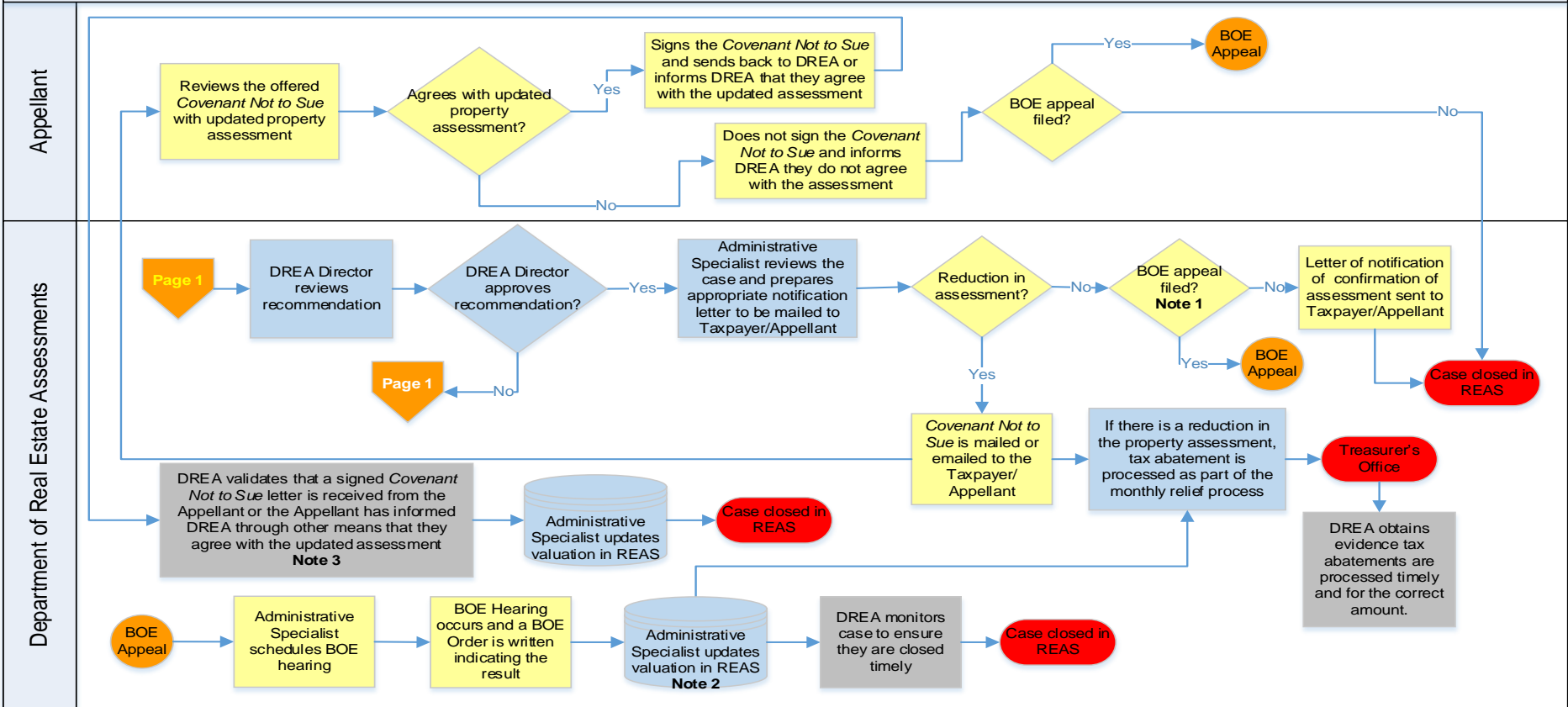
Color coding for process elements:

- Process Step (Yellow)
- Key Control (Blue)
- Gap (Grey)

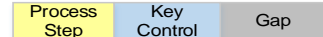
Note 1: The Application should include any information the Taxpayer/Appellant feels is relevant, but must include a certified and signed Income and Expense Statement. If the Application is not sent by the legal owner of the property, a *Letter of Authorization* must be included.
Note 2: Application and supporting documentation scanned and indexed in OnBase

Process Maps - continued

Commercial



Flowchart Legend:



Note 1: BOE appeal must be filed by April 15th.

Note 2: If the BOE hearing results in a confirmation of the current tax assessment, the Administrative Specialist updates the result of the hearing in REAS and closes the case. If the BOE hearing results in a reduction and the commercial property has multiple economic units, the case is sent back to the Appraisers to distribute the new tax assessment value.

Note 3: Prior to closing the DREA case, the Administrative Specialist reviews the file in REAS. There is currently not a requirement to ensure signed letters are included in the case document.

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