



CITY OF WILMINGTON

Tax Abatement Internal Audit Review

July 28, 2021

City Auditor's Office

Terence J. Williams
City Auditor
(302) 576-2165

Highlights

Why We Did This Audit

Internal Audit (IA) performed a scheduled audit of the Tax Abatement Process. The audit was in accordance with the 2021 Internal Audit Plan.

Methodology

The objectives were by performing research, interviewing City of Wilmington staff, reviewing existing policies & procedures, City Code sections pertaining to tax abatements, performing a review of tax incentive applications, and reviewing data in Munis.

Audit Review Committee:

Ronald Pinkett, Chair

Marchelle Basnight
Angelique Dennis
Chris Johnson
Tanya Washington

Objective and Scope

As part of our audit plan, Internal Audit (IA) conducted a Performance Audit of Tax Abatements with regards to commercial properties. The audit objective was to determine whether requirements for receiving property tax abatements and/or grants were met and to ensure the abatement process has sufficient internal controls in place to ensure proper monitoring and management. The scope of the audit includes City of Wilmington Tax Abatements in place or expired during the period of July 01, 2019 to June 30, 2020. IA believes the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis our findings and conclusions are based on our audit objectives.

Background

The City of Wilmington's Tax Incentive Program allows property owners the opportunity to receive a tax abatement on assessments because of New Castle County Assessing a parcel, due to new construction or reassessments based on improvements made to existing structures. Property owners can take advantage of this incentive by applying via paper form furnished by the Department of Finance.

The Tax Incentive Program was developed to attract investments into the city and only applies to the building portion of the parcel and not the land. Per the Director of Economic Development this program is imperative to the city's fiscal health because the city relies on public and private land assets for the highest and best uses. The Economic Development Department utilizes this program to promote growth and improvement for the city to remain fiscally stable. Although, the Tax Incentive Program is promoted and encouraged by the Economic Development Department, per the city code the Finance Department is to promulgate the rules and regulations during their management of the processes and procedures of the program.

The city's constituents are made aware of the tax incentive program through two different avenues but not limited to the follow:

- 1) The Economic Development Department promotes awareness to constituents when they inquire about potential projects.
- 2) The constituent self-educates themselves about the program by reading City Code (CC) section 44-71.

The Tax Incentive Program was reformed in 2006, and the following sections were deleted: 44-42, 44-53, 44-57, 44-58, 44-59 and 44-62 and amending Section 44-54, 44-55, 44-56, 44-63, 44-70 and 44-71. It was also amended in 2019, deleting section 44-71 and replacing it with new language and amendments to 44-68 and 44-70. The 2006 version and 2019 were used as a primary resource for this engagement.

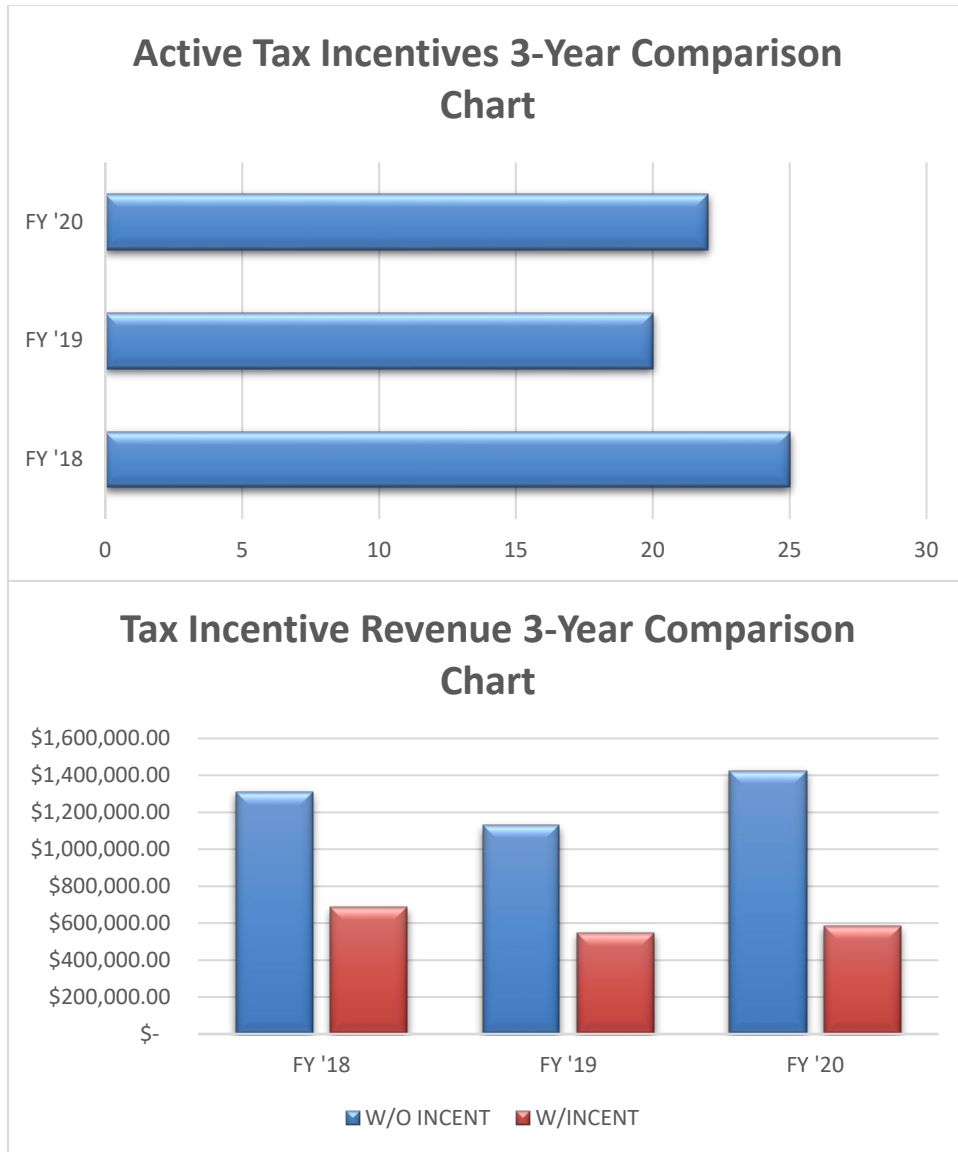
Tax Incentive Program Reforms	
2006 Revisions	2019 Revisions
<p>Sec. 44-54: Water and sewer charges and other fees and charges were added to the list of obligations to be paid as a condition of granted abatement.</p>	NONE
<p>Sec. 44-55: The city boards of assessments were relieved from responsibilities of making changes to adjust taxes as a result of in a reassessment and the Department of Finance was given the responsibility.</p>	NONE
<p>Sec. 44-56: The city board of assessments was relieved from the administrative duties pertaining to the Tax Incentive Program leaving the Department of Finance the sole owner of this duty. Other changes included removing the biennial application submission and removing the deadline of December 31. Language was also added to make the deadline for submission to be no later than 60 after the re-assessment provided by New Castle County. If application is not submitted within 60 day the exemption shall be deemed waived.</p>	NONE
<p>Sec. 44-61: Off-street Parking exemption expiration date was extended to June 30, 2010.</p>	NONE
<p>Sec. 44-63: The city board of assessments was released from administrative duties and duties were given to Department of Finance.</p>	NONE
NONE	<p>Sec. 44-68: The term “<i>vacant buildings</i>” was changed to “<i>vacant residential property</i>”. The abatement was decreased from 10 years at 85% to five years at 100% and four conditions were added as criteria to be met. Language was also added speaking to “change of ownership.”</p>
<p>Sec. 44-70: The City Historic District in national register Tax Incentive Program expiration date was extended to June 30, 2010, and the maximum abatement of \$200,000 limitation was eliminated.</p>	NONE

<p>Sec. 44-71: Language was added to identify commercial and residential properties as inclusions to the real estate Tax Exemption Program. Other changes include are removing the term “complete 100%”. Language pertaining to the five-year gradual 20% exemption was moved from (b)2(C) to (b)2. Amendments were also made to the city limits of the specify areas such as street in direction. The term “mixed” was added to residential properties. Incentive years were increased for residential in mixed and decreased 4 new market multifamily apartment buildings. The Tax Incentive Program expiration date was extended to June 30, 2010. Language was also added to give the Department of Finance administrative responsibility and mandated maps illustrating the designated areas for residential in mixed use abatements.</p>	<p>Sec. 44-71: The prior version was deleted in its entirety and replaced with new language outlining four different types of abatement programs including a five-year commercial properties abatement, residential and mixed use properties, five-year abatement ten-year abatement attributed to qualified improvements for any market rate multifamily residential or market rate mixed use property and conversion of commercial properties to market rate multi-family residential or market rate mixed use properties definitions were added to the real estate tax exemption program such as commercial property, market rate, mixed-use property qualified improvements. Language was also added outlining zoning, change of ownership, time limit for eligibility procedures and extension of real estate tax exemption program.</p>
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After researching, the Tax Incentive Program it was determined that 27 parcels fell within our audit scope. Each parcel was reviewed carefully in the Munis database to ensure compliance. In addition, applications for the tax incentive program were requested to be reviewed and assessed as part of our audit testing; of the 27 requested applications only 21 were accessible. The application process was evaluated on nine key components listed below.

1. Required Documentation
2. Application Completeness (*a checklist was used to evaluate each session of the application*)
3. System Notations of Application
4. Processing Timeliness
5. Application Submitted by Deadline
6. Inaccuracies
7. Accessibility
8. Correspondence

Key Statistics



According to the data abstracted from the Munis database, tax abatements cost the city approximately \$633K in **FY18**, \$581K in **FY19** and \$840K in **FY20**. These figures represent the difference in amounts billed with and without tax incentives.

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Compliance					✓
Policies & Procedures					✓
Review & Approval					✓
Record & Retention					✓
Segregation of Duties					✓
Errors & Omissions				✓	

Compliance

1. There were significant instances of noncompliance with portions of *City Code*, pertaining to tax abatement processing such as, a lack of evidence showing whether parcels were screened for an outstanding balance owed to the city, as specified in CC Sec. 44-54. Two instances were documented where more than one parcel was recorded on an application and one application was submitted more than 60 days after New Castle County’s reassessment date and approved.

Policies & Procedures

2. No written policies and procedures exist stating how to process tax abatement applications.

Review & Approval

3. Controls need strengthening surrounding the timeliness of when tax abatement requests received should be processed. Nine instances were noted when abatement applications were processed more than 30 days after being received.

4. Inconsistent controls exist regarding how tax abatements are being applied. For instance, one parcel of land received two twenty-year tax abatements without supporting documentation stating the justification for the second abatement.

Record & Retention

5. Controls pertaining to the review and approval of applications need strengthening to ensure applications include necessary supporting documentation and are properly verified for accuracy and completeness. For instance, 21 out of 27 (78%) of the samples reviewed had one or more of the following exceptions: 21 samples did not have supporting documentation about the tax abatement, 21 applications were not signed by the Planning Director and 20 were missing the Billing Manager's signature to name a few of the exceptions.

Segregation of Duties

6. Lack of controls exists, due to one person (Real Estate Tax Coordinator) solely performing every step of the tax abatement process. There is no input from other departments related to the process or other finance staff.

Errors & Omissions

7. Weak controls exist within the data entry step of the tax abatements process which lead to billing errors and other discrepancies going undetected. For example, five properties were approved for the additional five-year graduated abatement; however, did not receive the full exemption for that term. This resulted in constituents being inaccurately billed and over charged for real estate taxes. In addition, discrepancies were noted between information on an application versus what was inputted in Munis.
8. Inconsistent records exist, due to ambiguity from one tax abatement code being used for determining all tax incentives in Munis.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:

Process owner should be consistent with screening applicants/parcel for outstanding balances or have applicant provide proof that all outstanding balances are paid (i.e., print outs or signatures from each department owned on applicable pages of the application)

Management response & action plan:

Management will develop a policy/procedures manual that will outline the steps for processing Tax abatement applications, which will identify and include all departments impacted.

In addition, a verification checklist will be created and attached to the application to ensure that all signatures, all documents have been received and all necessary steps have been followed based on the policy and procedures manual and City Code.

Management will also develop a spreadsheet to track the status and approval of all applications.

Completion Date: Completed

Recommendation #2:

Management should ensure that a written policy and procedure is created stating how to properly process tax abatements. There also should be a tax abatement committee to provide guidance in decision making and to assist with developing a policy and procedure.

Management response & action plan:

Management will develop a policy/procedures manual that will outline the steps for processing Tax abatement applications, which will identify and include all departments impacted.

Completion Date: Completed

Recommendation #3:

Management should ensure that applications are processed within 30 business days of receiving the abatement application.

Management response & action plan:

Due to the approval process, the department will commit to complete all applications received within 30-business days. We will develop a spreadsheet to track the status and approval of all applications.

Completion Date: Completed

Recommendation #4:

Management should review a tax account before applying an abatement to ensure that the property is eligible to receive specific incentive.

Management response & action plan:

Management disagrees with this observation and thinks this is an incorrect finding for parcel # 2602830231 because there is a justifiable reason for the 2nd assessment. For example, there was an increase in the assessment, which allowed for an additional tax abatement

Completion Date: Completed

Recommendation #5:

Management should require that supporting documents of selected tax abatement be part of the approval process. They also provide the applicant with the proper form in the event the incorrect one is submitted. Erroneous forms should not be honored.

Management response & action plan:

Management will create a verification checklist and it will be attached to the application to ensure that all signatures, all documents have been received and all necessary steps have been followed based on the policy and procedures manual and City Code.

There was only one instance regarding finding #2, which is related to parcel #2603520094. An older application was used by the customer, which the city accepted and processed. Going forward, the department will keep all applications on-site, until the tax abatement period has ended.

Completion Date: Completed

Recommendation #6:

Management should ensure there is a multi-step review between the Economic Planning, Finance, L&I, and any other relevant departments

Management response & action plan:

Management will develop a policy and procedures manual that will outline the steps for processing tax abatement applications, which will identify and include all departments impacted. In addition, a verification checklist will be created and attached to the application to ensure that all signatures, all documents have been received and all necessary steps have been followed based on the policy and procedures manual and City Code.

Completion Date: Completed

Recommendation #7:

Process owners should update and credit the affected parcels appropriately and ensure that future abatements are applied correctly.

Management response & action plan:

Management will develop a policy and procedures manual that will outline the steps for processing tax abatement applications, which will identify and include all departments impacted. In addition, a verification checklist will be created and attached to the application to ensure that all signatures, all documents have been received and all necessary steps have been followed based on the policy and procedures manual and City Code.

A request will also be submitted to the IT Department for them to create additional tax abatement exemption codes.

Completion Date: Completed

Recommendation #8:

Management should create more codes for each abatement and have deadlines.

Management response & action plan:

A request will be submitted to the IT Department to create additional tax abatement exemption codes. The codes will ensure four requirements are included such as Residential, Commercial (Cross-hatched, Urban renewal zone & City wide, 25 or more” blue-collar” jobs), Registered vacant residential and City historic/national register properties.

Completion Date: Completed

Audit Team

MaDonna Woodson, Senior Auditor
Tamara Thompson, Audit Manager