

Memorandum



CITY OF DALLAS
(Report No. A10-002)

DATE: October 2, 2009

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit Report on Inappropriate Tax Exemptions and Delinquent Property Taxes

The City Auditor's Office conducted two computer matches using Dallas Central Appraisal District (DCAD) property tax records. These two computer matches showed that:

- 35 property owners, who were deceased as of 2006, continue to claim property tax exemptions in 2009. As a result, the various taxing entities in Dallas have a \$193,440 potential revenue loss for the last three years. Of this \$193,440, the City of Dallas had a potential revenue loss of \$63,666 in property tax revenue because of these inappropriate tax exemptions.
- 12 vendors conducting business with the City of Dallas received \$6,713 in payments that could have been offset against delinquent taxes for 2005 through 2007.

Property taxes are a major revenue source for the City. The Texas Property Tax Code mandates the administration, appraisal, and collection of property taxes. Inappropriate tax exemptions and delinquent property taxes negatively affect the City's budget because the City is not receiving the correct amount of revenue.

Deceased Individuals Still Claiming Multiple Property Tax Exemptions

DCAD is responsible for appraising property and granting property tax exemptions for the City of Dallas. Inappropriately claimed exemptions lower the property taxable value and result in loss in property tax revenue. To qualify for the General Residential Homestead Exemption, the property must be designed or adapted for human residence and the homeowner must own and reside at the property on January 1 of the year the application is submitted to the appraisal district. DCAD periodically queries the State of Texas Vital Statistics death record database and adjusts the property tax exemptions.

The City Auditor's Office analysis of 7,843 death records for Calendar Year 2006 identified 1,820 individuals who owned property in Dallas County. Further analysis showed that 35 of the 1,820 deceased property owners continue to improperly claim the General Residential Homestead Exemption in 2009. Some deceased property owners also improperly claimed multiple exemptions, including Over-65 Homestead, Disability Homestead, and Disabled Veteran.

The 35 deceased property owners identified also claimed exemptions from other taxing entities. Table I shows the total potential revenue loss for all taxing entities could be \$193,440.

Table I
Potential Loss in Property Tax Revenue to Taxing Authorities
2007 - 2009

Year	Independent School Districts ¹	City of Dallas	Parkland Hospital	Dallas County	Dallas County Community College	Totals
2007	\$ 27,095	\$ 21,222	\$ 7,389	\$ 6,773	\$ 2,059	\$ 64,538
2008	26,771	21,222	7,389	6,779	2,290	64,451
2009 ²	26,771	21,222	7,389	6,779	2,290	64,451
Totals	\$ 80,637	\$ 63,666	\$ 22,167	\$ 20,331	\$ 6,639	\$ 193,440

Source: City Auditor's Office analysis of Texas State Health Services death records and DCAD property tax exemption records

We provided a list of the deceased property owners to DCAD for correction of the exemption status.

The Bureau of Vital Statistics (BVS) Audit is performed each year by DCAD to eliminate erroneous exemptions for prior and current years. The BVS report matches a deceased person to the property listed as their residence at the time of death. DCAD Exemption staff decides what action to perform on each account to ensure that the exemptions are applied accurately and according to the Texas Property Tax Code. DCAD may need to research exemption eligibility by sending a letter questioning eligibility and/or notifying the taxpayer that exemption removal is pending, or do nothing, if the account is deemed in compliance with the law.

Because erroneous tax exemptions reduce tax revenues for the tax agencies DCAD serves, DCAD will perform annual exemption audits to eliminate exemptions taxpayers no longer qualify to retain, due to ownership changes, death of qualifying taxpayers, etc. These audits will insure that the tax burden for the taxpaying public is fairly and equitably distributed.

¹ Independent School Districts include Dallas ISD (\$74,434), Mesquite ISD (\$1,675), and Richardson ISD (\$4,534)

² Property tax was calculated based on the estimated 2009 tax rate of \$0.7479 per \$100.

City Paid Vendors Who Owe Delinquent Property Taxes

While property taxes are collected by the Dallas County and distributed to the City and other taxing jurisdictions, the City could withhold payments to vendors with delinquent property taxes until the taxes are paid.

We identified 71 active City vendors who owed the City \$263,729 in total delinquent property taxes from 1996 through 2008. Further analysis showed 12 vendors received \$6,713 payments in Fiscal Year 2008 that could have been offset against delinquent taxes owed for 2005 through 2007.

Currently, the City Charter, City Code, and Administrative Directives do not provide guidelines on monitoring City vendors who owe delinquent property taxes. However, the City of Dallas General Conditions for Request for Bids (RFB) states:

“The City may, at its option, offset any amounts due and payable under a contract awarded under the RFB against any debt (including taxes) lawfully due to the City from contractor, regardless of whether the amount due arises pursuant to the terms of the contract or otherwise and regardless of whether or not the debt due to the City has been reduced to judgment by a court.”

We provided a list of the vendors identified to the City Controller for appropriate action.

Our audit objectives were to identify:

- Deceased property owners who continue to claim property tax exemptions
- City vendors who may owe delinquent property taxes

To achieve our objectives, we:

- Matched 2006 death records obtained from the Texas State Health Services to the property tax ownership records on the DCAD website
- Compared a list of the City vendors to a Dallas County list of individuals and businesses with delinquent property taxes

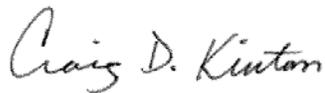
This audit was conducted under authority of the City Charter, Chapter IX, Section 3 and in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The results of this audit were discussed with City management and DCAD. We appreciate the cooperation and assistance we received from City management, Texas State Health Services, and DCAD during this audit.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

C: Mary K. Suhm, City Manager
David K. Cook, Chief Financial Officer
Edward Scott, City Controller
Ken Nolan, Chief Appraiser – Dallas Central Appraisal District