

Memorandum



CITY OF DALLAS
(Report No. A13-004)

DATE: February 1, 2013

TO: Honorable Mayor and Members of the City Council
W. Kenneth Nolan, Executive Director / Chief Appraiser –
Dallas Central Appraisal District

SUBJECT: Audit on the Design of Dallas Central Appraisal District's Internal Control over
Total Exemption Processing¹

The Dallas Central Appraisal District's (DCAD) Property Records/Exemption (PRE) department has designed reasonable controls to ensure that partial and total property tax exemptions are awarded in accordance with the Texas Property Tax Code, Chapter 11 (Code). The internal control design includes both manual and automated controls, such as computer application access, processing, and monitoring controls.

Although the internal control design was reasonable, PRE's Total Exemption policies and procedures were not always reflective of current practices relating to field inspections performed to assist in determining Total Exemption status.

This observation was discussed with PRE management which immediately began the process of updating the policies and procedures. Because no other observations resulted in recommendations, no written response was required.

Background

The Texas Property Tax Code Chapter 11, *Taxable Property and Exemptions*, is the primary source of law and guidance for the Texas property tax system. The Code establishes DCAD's authority for appraising property and granting partial and total tax exemptions on behalf of the City of Dallas (City) and over 60 other local governing bodies in Dallas County.

For tax year 2012, Total Exemptions for the City (Governmental and Non-Governmental) was approximately \$11.7 billion, or 11.3 percent, of the City's Total Market Value (TMV). Of the City's \$11.7 billion in Total Exemptions, Non-Governmental properties accounted for approximately \$4.7 billion, or 4.5 percent, of the City's TMV (see Attachment I).

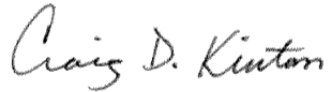
Source: Dallas Central Appraisal District

¹ The audit objective was to evaluate the design of DCAD's internal controls over partial and total property tax exemptions. This performance audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2012 Audit Plan approved by the City Council. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed department personnel, reviewed applicable tax code statutes, policies/procedures provided by DCAD, prior audit reports, Texas State Attorney General Opinions, and performed various analyses.

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We would like to acknowledge DCAD's cooperation during this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,

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

Craig D. Kinton
City Auditor

Attachments

C: Mary K. Suhm, City Manager
Jeanne Chipperfield, Chief Financial Officer
Jack Ireland, Director – Office of Financial Services
Shane Docherty, Director of Appraisal – DCAD
Patricia Nixon, Manager, Property Records/Exemptions – DCAD
Elizabeth Sarles, Appraisal Supervisor – DCAD

Background

The Texas Property Tax Code Chapter 11, *Taxable Property and Exemptions*, is the primary source of law and guidance for the Texas property tax system. The Texas Property Tax Code (Code) mandates the administration, appraisal, and collection of property taxes within the State of Texas (State). The Code establishes the authority of the Dallas Central Appraisal District (DCAD) for appraising property and granting partial and total tax exemptions on behalf of the City of Dallas (City) and 60 other local governing bodies in Dallas County (County).

DCAD is a political subdivision of the State. DCAD's primary duties include establishing and maintaining accurate property values for all real and business personal property within the County. The City contracts with the County to prepare and send tax bills to property owners, collect monies due, and disburse funds back to the city.

DCAD administers partial and total property tax exemptions within the City. The information is used to update tax rolls and assign the appropriate tax liability to all properties located within the City. DCAD provides the City with an annual appraisal of all properties located within the City each January 1. DCAD's property appraisals exclude all property exempted from municipal taxation under the Code. DCAD classifies Total Exempt properties as either Governmental or Non-Governmental (see text box). All Governmental properties are granted a Total Exemption (TE). Total Exemptions for Non-Governmental properties are granted based on the criteria included in the Code.

Property Categories
<u>Governmental Properties</u> – Include properties categorized as follows: City, County, State, Federal, Public School, and other Public Properties
<u>Non-Governmental Properties</u> – Include all other properties that are considered for a Total Exemption. According to DCAD personnel, the following five categories comprise the majority of Total Exemptions: Charity, Primarily Charitable, Religious, Private School, and Youth Development Associations.
Source: Dallas Central Appraisal District

For tax year 2012, the County's Total Market Value (TMV) of property, including both Governmental and Non-Governmental properties, was approximately \$207.8 billion. Of the \$207.8 billion, the City's TMV was approximately \$103.4 billion, or 49.7 percent.

Total Exemptions for the County, including both Governmental and Non-Governmental properties, was approximately \$19.9 billion, or 9.6 percent, of the County's TMV. Total Exemptions for the City was approximately \$11.7 billion, or 11.3 percent, of the City's TMV. Of the City's \$11.7 billion in Total Exemptions, Non-Governmental properties accounted for approximately \$4.7 billion, or 4.5 percent, of the City's TMV.

Three Total Exemption categories comprise approximately \$4.32 billion, or 93 percent, of the City's \$4.66 billion TMV of Non-Governmental Total Exemptions. Charity and Religious categories account for approximately 82 percent of the City's TMV of Non-Governmental Total Exemptions (see Table I on the following page).

An Audit on the Design of Dallas Central Appraisal District's Internal Control over Total Exemption Processing

Table I

**City of Dallas
Non-Governmental
Primary Total Exemption Categories**

Non-Governmental Total Exemption Category	Amount	Percent of Total *
Charity	\$ 2,330,983,700	50
Religious	1,502,267,530	32
Private Schools	483,913,950	11
Subtotal	4,317,165,180	93
Other	341,572,290	7
Total Exemptions	\$ 4,658,737,470	100

* The "Percent of Total" calculation, rounded, was based on the City's approximate \$4.66 billion TMV of Non-Governmental Total Exemptions.