

Chapter 4 Section 4.08

Municipal Property Assessment Corporation

Follow-up to VFM Section 3.08, *2010 Annual Report*

Background

The determination of the market value of a property is critical because it ultimately determines how much property tax an owner must pay. In Ontario, this tax is calculated by multiplying a property's assessed market value by the tax rate of the property's municipality.

On December 31, 1998, the province transferred the responsibility for determining the assessed value for properties to the Ontario Property Assessment Corporation, later renamed the Municipal Property Assessment Corporation (Corporation). The primary responsibility of the Corporation's 1,600 employees is to prepare an annual assessment roll for each local municipality that identifies each property and its assessed market value. In the 2011 calendar year, Corporation expenditures totalled \$190.4 million (\$185.5 million in 2009), most of which was funded by the province's 444 municipalities.

From the perspective of a property owner, it is reasonable to expect that each property will be assessed within a range that is reasonably close to its fair market value—the most likely sale price between a willing buyer and seller. At the time of our 2010 audit, this was also the position of the Corporation and Ontario's Assessment Review

Board, the independent tribunal that hears appeals from people who believe their properties have been incorrectly assessed or classified.

To get an indication of whether the Corporation's mass-appraisal system achieved this objective, in our 2010 audit we compared the sale prices of 11,500 properties identified as having been sold at arm's length in 2007 and 2008 to their assessed market value as of January 1, 2008. We found that in 1,400 of these cases, or one in eight, the assessed value differed from the sale price by more than 20%. In many cases, the difference between assessed market value and actual selling price was substantial.

At the time of our audit, the Corporation acknowledged that some individual property assessments might not have reflected the current or fair-market property-value range as indicated by an arm's-length sale price. These variations most often occurred because it did not have up-to-date property data from a property inspection. As a result, some property owners may have been over- or under-assessed, and therefore paid more or less than their fair share. While the Corporation did get it right for the vast majority of properties, this was of little solace to property owners who were over-assessed relative to neighbouring properties, and therefore paid more than their fair share of tax.

More frequent property inspections and timely investigations of sales values that vary significantly

from assessed values should reduce the differences between assessed values and sale prices. Nevertheless, our discussions with the Association of Municipalities of Ontario indicated that municipalities were generally satisfied with the assessment-roll information the Corporation provided.

In our *2010 Annual Report*, we identified a number of areas where improvement was needed with respect to the Corporation's collection of information essential for accurate and consistent property-tax assessments. The most significant of these areas were the following:

- In the 1,400 cases in which we found the sale price differed by more than 20% from the assessed value, the Corporation had not investigated the reasons for these differences or made any adjustments to the assessed value of these properties where warranted.
- We found almost 18,000 building permits with a total value of about \$5.1 billion as of December 31, 2009, for which the Corporation had failed to inspect the corresponding properties within the three-year statutory period for reassessing property and improvements.
- Although the Corporation's target is to inspect each property in the province at least once every 12 years, under the actual inspection cycle it would take at least 18 years to achieve this, assuming current staffing levels and no further growth in the number of residential properties.
- The Corporation began work on a new computer system in 2000, but the system was not yet fully functional, and costs incurred at the time of our audit exceeded \$50 million compared to an original budget of \$18.3 million.
- While the Corporation had established reasonable requirements for acquiring goods and services, it often did not comply with good business practices, including its own mandatory policies and procedures.

We made a number of recommendations for improvement and received commitments from the

Corporation that it would take action to address our concerns.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

The Standing Committee on Public Accounts held a hearing on this audit in March 2011. In May 2011, the Committee tabled a report in the Legislature resulting from this hearing. The report contained five recommendations and requested that the Corporation report back to the Committee with respect to the following:

- the Corporation's most recent data on significant variances between properties' sale prices and assessed values, including when and how the Corporation investigated the variances and what adjustments were made to assessments;
- the status of the Corporation's efforts to obtain information on building-permit work completed and occupancy/completion status reports from municipalities, including the number of municipalities that are submitting this information and an indication of whether municipalities are reporting in a standardized way with enough detail and whether the Corporation would be publicizing on its website those municipalities with more than 5,000 properties that:
 - have not submitted any information on building-permit work completed or any occupancy/completion status reports;
 - submitted building-permit information more than six months after work was completed; and
 - submitted occupancy/completion status information more than three months after the occupancy permit was issued;
- the results of the Corporation's managerial file reviews of Requests for Reconsideration decisions since the audit;
- the Corporation's progress in meeting a 12-year inspection cycle, including the average

daily number of inspections per inspector (and the length of the ensuing inspection cycle), how the Corporation is ensuring that the risk of under- or over-assessments is the main driver of inspections, the effect of tools like hand-held computing devices, satellite imagery and phone surveys in shortening the inspection cycle, and measures taken to ensure high-quality field-office review of inspection files; and

- what oversight procedures the Corporation has to ensure that its staff are complying with its revised policies on procurement and on travel, meals and hospitality.

The Corporation formally responded to the Committee in September 2011. A number of issues raised by the Committee were similar to our observations. Where the Committee's recommendations are similar to ours, this follow-up includes the recent actions reported by the Corporation to address the concerns raised by both the Committee and our 2010 audit.

Status of Actions Taken on Recommendations

According to the information we received from the Corporation, significant progress has been made in addressing most of our recommendations, with some progress being made on the others. For instance, the Corporation has established a 25% threshold, above which differences between a property's sale price and its assessed market value are to be investigated within a 12-month period. The Corporation has also expanded its use of its information management systems to document property inspections and Requests for Reconsideration. It also conducts managerial reviews on these electronic files. In addition, the Corporation has revised and strengthened its procurement policies to ensure that goods and services are acquired appropriately, written and properly authorized con-

tracts are in place, and evaluations of contractors' performance are documented. It also advised us that it now follows the government's Travel, Meal and Hospitality Expenses Directive. The Corporation will need additional time to fully address some of our other recommendations, such as inspecting and reassessing all properties for which a building permit has been issued before statutory limits on collecting additional taxes expire. The Corporation will also need additional time to implement its 12-year residential property inspection plan. The status of the action taken on each recommendation at the time of our follow-up was as follows.

ASSESSED VALUES OF RESIDENTIAL PROPERTIES

Recommendation 1

To help ensure that individual properties are assessed in accordance with the Assessment Act at the amount that a willing buyer would pay to a willing seller, the Municipal Property Assessment Corporation should:

- *formally establish a threshold above which differences between a property's sale price and its assessed market value must be investigated within a reasonable period of time; and*
- *where warranted, adjust the property's assessed market value accordingly.*

Status

The Corporation informed us that it used sale prices from 2009, 2010 and 2011 to develop values for its January 1, 2012, assessment update. In 2011, the Corporation established a threshold of 25%, together with assessment-to-sales analysis from each market area, to flag sales that should be investigated. Depending on the difference between the previous assessed value and the current market value, the Corporation would conduct either an on-site inspection or a desktop review of the property. A desktop review, which is an alternative method to an on-site visit, consists primarily of reviewing digital images of the property and requesting supporting documentation from the property owner. The Corporation aimed to conduct all targeted

investigations within 12 months from the date it obtains sale information.

The Corporation advised us that out of the approximately 1,118,000 sales that occurred between 2009 and 2011, it had identified about 534,000 properties for investigations as they met the 25% threshold and a predetermined assessment-to-sales ratio. It had conducted investigations on approximately 382,000 of them as of March 1, 2012. About 215,000 (or 56%) of these investigations resulted in a change to the property's assessed value. Approximately 191,000 (or 89%) were adjusted upward in value while the remaining 24,000 (11%) were adjusted downward. In total, the exercise resulted in value changes of some \$16.6 billion. The Corporation planned to complete the remaining approximately 152,000 investigations by the end of 2012.

The Corporation also informed us that it was in the process of updating its sales investigation procedures, originally established in 2011. It planned to incorporate a risk-analysis model and develop additional alternatives to the procedures to ensure that sales investigations are completed on a more timely basis.

BUILDING PERMITS

Recommendation 2

To help ensure that inspections of properties for which a building permit has been issued are completed on a timely basis so that retroactive assessments and tax can be levied as soon as possible and certainly before statutory limits expire, the Municipal Property Assessment Corporation should:

- *ask all municipalities in the province to provide the Corporation with formal notification when the work with respect to a building permit has been completed; and*
- *inspect and reassess the market value of all such properties before statutory limits on collecting additional tax expire.*

Status

The Corporation indicated that it has developed an extensive communications strategy and introduced various initiatives to encourage all municipalities to provide building-permit information via a standardized electronic process (in the absence of any legislative requirement to do so). It has also developed internal standardized reports, provided to its managers every month, that contain key building-permit information, such as the age of the permit, the actual or expected completion date for the project and the value of the permit issued.

The Corporation advised us that the number of municipalities in compliance with the standardized process had more than doubled, from 69 to 154, over the four-month period from November 2011 to February 2012. Although the 154 municipalities represent only 37% of the 414 municipalities that issue permits, these municipalities accounted for close to 126,000 (or 68%) of the approximately 185,000 permits received by the Corporation for 2010. The remaining 32% of permits (59,000) were submitted by 260 municipalities but were not provided in compliance with the standardized process. The Corporation's goal was to have at least 80% of permits submitted in the standardized format. Once this 80% target is reached, the Corporation is to examine the costs versus the benefits of trying to raise this percentage further, as opposed to managing the remaining paper permits manually.

With respect to further inspection and reassessment of properties with a building permit issued, the Corporation informed us that it used the building-permit information received from municipalities to prioritize certain properties for value assessment before statutory limits expire. The Corporation reported that this permit prioritization helped it to reduce the assessment amounts that had passed the statutory limits from 15.7% in 2010 to 10% in 2011. The Corporation also indicated that the number of permits worth more than \$10,000 each that had been issued more than three years ago had been reduced from almost 18,000 as of December 31, 2009, to approximately 10,500

permits as of March 31, 2012. The total value of these older permits had also been reduced, from approximately \$5.1 billion to about \$2.3 billion over the same period.

The Corporation further advised us that the average time to process an assessment change resulting from building-permit activity had been reduced from 10.8 months in 2010 to 9.6 months in 2011 and that the building-permit activity had resulted in over \$28.4 billion in increased assessments in 2011.

In addition, the Corporation indicated that, as of March 31, 2012, there were about 243,000 building permits to be reviewed, including those issued in prior years. Of the 243,000 permits, about 156,000 (or 64%) had been identified as ready for reassessment and prioritized for completion within legislated timelines. The construction work for the remaining approximately 87,000 (or 36%) building permits had not yet been completed.

REQUESTS FOR RECONSIDERATION AND ASSESSMENT REVIEW BOARD APPEALS

Recommendation 3

To help ensure that the merits of Requests for Reconsideration (RfRs) are properly assessed, and that the adjustments to the property's assessed market value are adequately supported, the Municipal Property Assessment Corporation should:

- establish mandatory requirements for conducting and documenting RfRs; and
- on a sample basis, conduct and document managerial file reviews of all RfRs, including those that result in no assessment changes, to ensure compliance with suggested requirements for conducting an RfR.

Status

The Corporation advised us that it has established and implemented new Requests for Reconsideration (RfRs) Procedures, which identify the mandatory requirements for conducting and documenting RfRs. These were implemented in October 2009

and further revised in January 2011 to incorporate the new managerial review process. The Corporation also implemented an automated document management system in 2010 to manage all RfRs. Process controls were incorporated into the document management system to improve documentation quality and for ease of management review. Because all documentation and correspondence received from property owners is scanned and stored electronically, paper documents are no longer required.

As of March 1, 2012, the Corporation had processed more than 18,500 RfRs received in 2011 for that tax year. The Corporation indicated that manager reviews had been conducted for all of the 2011 RfRs it received, including those that resulted in no change in assessment value. As a result of the managerial reviews, almost 2,700 (or 14.4%) of the 18,500 RfRs were flagged for further action. Of these, approximately 60% had errors relating to property valuation or classification. The remaining 40% had inadequate supporting documentation, but there was no impact on the property value or owner. The Corporation informed us that all of these RfRs were further reviewed to ensure they had been accurately processed prior to issuing the final assessment for the property.

The Corporation informed us that it will use the 14.4% rejection rate to determine the appropriate level of sampling for future managerial file reviews of RfRs.

INSPECTIONS

Property Inspection Cycle

Recommendation 4

To help ensure that the property information in its database is as complete and up to date as possible, and that it has reliable information with respect to inspections completed, the Municipal Property Assessment Corporation should:

- require that each regional office select annually at least some properties for an inspection based

on the assessed risk of under- or over-assessment with a view to working toward meeting its 12-year inspection cycle; and

- *maintain accurate and meaningful information with respect to the number and type of inspections completed (for example, sales investigations, building permits, and new constructions).*

Status

The Corporation has established a 12-Year Property Review Plan and identified the number of properties that must be reviewed each year in order to inspect all Ontario residential properties over a 12-year period. The Corporation informed us that it has prioritized this listing to ensure properties deemed to be at risk of under- or over- assessment are inspected. Some of the at-risk properties were identified based on such factors as local area knowledge, historical inquiries, appeals and RfR activities, and the average time since the last inspection. The workload listing has been distributed to managers at each regional office bi-weekly since June 2011. As of July 2012, the Corporation had completed a total of approximately 206,000 property reviews for the year: approximately 111,000 were cyclical (targeted) inspections and approximately 95,000 related to building permits, sales investigations, RfRs or appeals.

The Corporation indicated that the number of residential properties that have not been inspected or verified in more than 12 years had been reduced from over 1.5 million, as reported in our *2010 Annual Report*, to about 1.3 million as of July 1, 2012. Under its 12-Year Property Review Plan, the Corporation intends to gradually reduce the gap and eventually eliminate it by 2021.

As was also reported in our *2010 Annual Report*, not all the Corporation's inspections are conducted by an on-site visit. As mentioned earlier, the Corporation may validate property information through a desktop review depending on the assessed risk. The desktop review may include sending out sales questionnaires to property owners to obtain data for verification purposes.

The Corporation informed us that, when changes identified by self-reporting property owners cannot be validated through the use of digital imagery, the validation is completed by way of an on-site review of the property.

In addition, the Corporation informed us that to facilitate the tracking of accurate and meaningful information regarding the number and type of inspections completed, it added new property review reason codes and method codes in March 2012 to improve its information systems. The new codes are intended to allow for more precise information that will better reflect the nature and outcome of the inspections.

Inspector Workloads, Quality of Inspections Performed

Recommendation 5

To ensure that inspections are conducted efficiently and are adequately completed and documented, and support the changes to a property's assessed value, the Municipal Property Assessment Corporation should:

- *regularly monitor and assess the productivity of inspectors with respect to both the quality and average number of inspections being done each day;*
- *ensure that files are documented in compliance with acceptable standards and clearly demonstrate what work was completed and what assessment changes were made as a result; and*
- *oversee the success of each regional office in meeting the 12-year inspection-cycle target.*

Status

The Corporation informed us that it has developed and, since September 2011, distributed monthly inspection reports that summarize work activities such as average inspections per day, total inspections completed and total work time. The reports are intended to assist regional managers in their monitoring of inspector productivity and ensure that documentation standards are met; however, formal policies and procedures on the new documentation

standards had not yet been established. The Corporation planned to formalize the new requirements by early 2013.

The Corporation also informed us that, effective June 2011, inspection results, such as inspection or verification dates, comments, outcomes and value changes (if any), are entered and stored in the Integrated Property System. Manual files complementing the system are no longer mandatory. Moreover, the Corporation indicated that property reviews were deemed to be completed only when the appropriate information had been updated in the system.

With respect to meeting the 12-year provincial inspection-cycle target, the Corporation indicated that it had established a 12-Year Property Review Plan (see Figure 1) and an annual work plan at a field-office level, and it monitored progress on a monthly basis. The Corporation informed us that in 2011 it inspected approximately 543,000 properties, or about 4,000 more than targeted. However, there are fluctuations in the inspection targets over the 12-year cycle related to such factors as existing workload, competing demands and lack of resources. For example, because of the legislative requirement for delivering the 2013 Assessment Roll by

December 2012, inspection targets for 2012 were reduced from the previous year by about 220,000 (40%), to 319,000 inspections.

We reported in 2010 that after the Ombudsman's 2006 report recommended that the Corporation review its staffing needs, the total number of inspectors at the Corporation peaked at approximately 320 in 2007; however, it had steadily dropped since then to about 230 as of April 2010. Although the Corporation has increased its number of inspectors since, and had some 250 and 260 inspectors on staff as of December 2010 and 2011, respectively, it still has fewer staff than it did in 2007.

In order to complete the 12-Year Property Review Plan using available resources, the Corporation has introduced several initiatives to improve efficiency. For example, by the end of 2012, the Corporation planned to complete an upgrade of AboutMyProperty™, an on-line service property owners can use to validate their property information electronically. The Corporation believed this service would be used by significantly more property owners than in the past because of an upgrade making it much more accessible and user-friendly. Moreover, the Corporation has replaced traditional map books with GPS navigational devices and cellphones. As a result, its property inspectors have been able to locate properties more quickly and can get in touch with the office at any time for further information.

Figure 1: 12-Year Residential Property Review Cycle

Source of data: Municipal Property Assessment Corporation

Year	# of Residential Property Reviews
2010	446,565
2011	538,500
2012	319,000
2013	261,929
2014	545,052
2015	566,245
2016	366,701
2017	314,315
2018	576,245
2019	580,908
2020	419,087
2021	314,315
Total	5,248,862

Quality Control for Inspections Completed

Recommendation 6

To enhance the effectiveness of the current quality control function, the Municipal Property Assessment Corporation should:

- ensure that supervisory reviews of inspection files are properly completed and adequately documented as required; and
- include in its review process some inspection files that did not result in a change to a property's assessed value.

Status

In July 2011, the Corporation introduced a Property Review Process Control Team to investigate opportunities for streamlining and automating the property review process, to promote a consistent and more effective approach to management oversight, and to facilitate the assignment and reporting of random property reviews for each field office.

Subsequently, in August 2011, the Corporation established standardized procedures to enable proper supervisory review of inspections. For example, the team developed a new form that is used to electronically document reviews on selected inspections on a bi-weekly basis. The Corporation informed us that property reviews were being done based on both the information in its Integrated Property System and on-site visits. The results of each review are then to be documented on the new form and distributed to the responsible management team for appropriate action and follow-up, if necessary.

The Corporation informed us that about 44,600 (or 8%) of the property reviews for 2011 were found to have problems, either because of non-compliance with standard operating procedures or because they were deemed to be duplicate reviews of the same properties. Although a property may have had to be reviewed more than once due to multiple work activities, for the purpose of contributing to the Corporation's 12-Year Property Review Plan, the property was counted only once as a unique property review.

The Corporation indicated that the samples selected for the review process included both properties where the initial inspection resulted in a change to either the property record or the assessment, and properties where the inspection resulted in no changes. In 2011, about 2,600 properties were sampled, of which approximately 1,500 (or 60%) were properties where the initial inspection had resulted in no change. As of December 31, 2011, the reviews of these 2,600 properties had resulted in absolute value changes of 0.3% of their total value.

The Corporation informed us that it was continuing to develop improvements to its Integrated Property System. At the time of our follow-up, it was developing and testing some system changes and working to add some automatic control functions to improve the efficiency and accuracy of reviews. It planned to implement these changes by the end of 2012.

EXPENDITURES

Establishing the Need for Goods and Services, Acquisition Process for Goods and Services

Recommendation 7

To ensure that goods and services are acquired only when necessary and are the most appropriate in the circumstances, the Municipal Property Assessment Corporation (Corporation) should comply with its own procurement policy and ensure that each acquisition is:

- *justified based on clear business requirements;*
- *the most appropriate option to satisfy the business requirement under the circumstances; and*
- *supported by a properly authorized purchase requisition that provides evidence of the authorization to proceed.*

To ensure that all vendors are treated fairly and equitably and that it obtains value for money spent, the Corporation should also:

- *acquire goods and services competitively in compliance with its own requirements and those of the Ministry of Finance; and*
- *prepare and maintain, for each transaction, adequate documentation to demonstrate why the successful vendor was selected.*

Status

In its response to our 2010 Annual Report, the Corporation indicated that it had implemented a new Procurement Policy in 2009 to conform to the province's procurement directive. The Corporation has further revised the policy, and received board approval of the changes in September 2011. The

new policy requires the justification for each acquisition to be based on clear and documented business requirements. It also requires the use of the Integrated Resources Information System (IRIS) for requisitions over \$10,000. These purchases cannot be processed without proper electronic approval in accordance with a Delegation of Authority Framework built into the system.

The new Procurement Policy also requires goods and services to be acquired competitively, with a few exceptions. Goods and non-consulting services valued over \$100,000 must be procured through a Request for Proposal (RFP) process, and all RFPs must be publicly posted. For acquisition of consulting services valued at \$100,000 or more, an open competitive procurement process generally must be used. A minimum of three vendors are required to submit a written proposal for consulting services valued less than \$100,000. The Corporation informed us that it would use the government's vendors of record where appropriate.

The Corporation informed us that its Procurement Unit must maintain a full record of the process used to demonstrate and support the vendor selected for each RFP. For purchases that are over \$10,000 but not tendered, the supporting documents must be included with the purchase requisition in the IRIS system.

The Corporation advised us that its internal audit service unit was planning a compliance review of the Procurement Policy by the end of 2012.

Contractual Agreements

Recommendation 8

The Municipal Property Assessment Corporation should adhere to good business practices by ensuring that:

- *it enters into appropriate written agreements with all of its suppliers of goods and services and that these written agreements include all the normally expected terms and conditions, such as ceiling prices, expected deliverables, and associated time frames;*

- *all such agreements are approved by individuals with the authority to do so;*
- *supplier invoices contain sufficient detail so that the reasonableness of amounts billed and paid can be assessed; and*
- *it assesses and adequately documents the qualifications and performance of suppliers of goods and services.*

Status

The Corporation advised us that it had established written service agreements with all of its suppliers and contractors in the fall of 2009. These agreements include terms and conditions such as ceiling price, expected deliverables, associated time frames and the circumstances under which price increases would be permitted.

As mentioned in the previous section, the Corporation's new Procurement Policy requires that purchase requisitions be recorded in IRIS for each supplier or contractor. The purchase requisition requires electronic approval consistent with the Delegation of Authority. Once approved, a purchase order and a service agreement are created. According to the Corporation, all existing service agreements are signed by the accountable manager, as per the Delegation of Authority Framework.

With regard to payments to contractors, the Corporation informed us that, effective January 2010, accountable managers are required to document the time spent on each project by each contractor, and provide this information to the Project Management Office. The Project Management Office is then to match it to contractor invoices in the IRIS system, ensuring there is sufficient support before forwarding the invoices to the accounting department for payment.

The Corporation also informed us that at the end of each contract, managers must also review contractor performance, and these evaluations are stored in the IRIS system. The Corporation had established a standard template to evaluate contractor performance, but was still in the process of developing a similar template to evaluate supplier performance at the time of our follow-up.

The Corporation's internal audit unit was planning a compliance review of the Procurement Policy, which is to include a review of its new service agreement practices, by the end of 2012.

Travel, Meals and Hospitality

Recommendation 9

The Municipal Property Assessment Corporation (Corporation) should consult with the Ministry of Finance to determine whether it is the Ministry's intention to have the Corporation comply with the spirit and intent of the government's own directive for the reimbursement of travel, meal, and hospitality expenses. As well, the Corporation needs to adopt more rigour in enforcing its travel, meal, and hospitality policies.

Status

The Corporation advised us that it had fully implemented the government's Travel, Meal and Hospitality Expenses Directive as of January 2011 and provided the directive to all managers to make sure they were aware of the changes and new requirements.

The Corporation informed us that, in January 2010, it added control checks to the IRIS system to flag possible duplicate expenses for investigation. In October and November 2011, the Corporation's Finance Branch reviewed about 31% of the total expenses claimed for these two periods and found that seven meal claims, worth about \$110, were in fact duplicated claims. The claims were corrected prior to expense reimbursement. The branch did not identify any subsequent non-compliance and informed us that it planned to continue with compliance reviews on at least 5% of the total expenses claimed on a weekly basis.