

Chapter 11

Service New Brunswick Property Assessments

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Service New Brunswick Property Assessments

Why Are We Reporting on Property Assessments?

Property assessments result in over \$1 billion of transactions

11.1 Property assessment values are a critical component in calculating revenue and accounts receivable amounts for the Province. Each year, Service New Brunswick (SNB) is mandated to assess approximately 500,000 properties which generate over \$1 billion in property tax transactions for the Province and municipalities.

Significant issues were identified in 2017

11.2 In November 2017, we issued a special report to the Legislative Assembly describing many weaknesses in property assessment processes. In that report, we made many recommendations on how SNB could improve its property assessment processes.

Not follow up of 2017 special report – findings are from our 2019 financial audit of the Province

11.3 The purpose of this chapter is to inform the Legislative Assembly of the results of our work regarding SNB's property assessment processes which we perform each year as part of the audit of the Province's consolidated financial statements. This chapter does not follow up on our 2017 special report. It deals with the findings from our 2019 financial audit work.

11.4 We made three new recommendations in 2019 on system access. The remaining five recommendations are similar to those we made in 2017 and still show the need for SNB to improve data integrity, identify errors and enhance quality control.

Weaknesses Found in 2019 Audit Work

Number of weaknesses still existing is surprising

11.5 We are surprised by the number of weaknesses we are still observing in property assessment processes at SNB. Many of these weaknesses relate to lack of review in different phases of property assessment processes.

Eight recommendations made this year to address weaknesses

11.6 We have made eight recommendations to SNB this year. Our recommendations address the weaknesses we found in four key risk areas. We found risks in:

- quality control processes;

- mass appraisal processes;
- the review of assessor work; and
- property system access reviews.

Assessment data may be compromised

11.7 In our view, these weaknesses may result in SNB issuing incorrect tax notices to taxpayers and should be of concern to the Legislative Assembly and taxpayers of New Brunswick. We were informed SNB is already taking steps to address some of these weaknesses.

Tax notices were mailed again in 2019 with errors

11.8 One example of where a weakness resulted in an error this year was in March when annual tax notices were mailed. Some property assessment values in the Marysville area of Fredericton contained errors because of weaknesses in the design of internal control processes at SNB.

11.9 We found these errors in the Marysville property assessments were due to a clerical error. The errors resulted in 94 property assessments increasing by 48.1% instead of an approved increase of 2.8%. We found SNB has since corrected these errors.

11.10 Our recommendations noted within this chapter address the weaknesses which lead to the 94 tax notices with errors being mailed.

Improvements Needed in Quality Control Processes

Quality control processes need to be improved

11.11 We found SNB has many quality control processes to review property assessment values before tax notices are issued in March of each year. Even though these processes are in place, we found weaknesses and areas where SNB still needs to improve processes.

11.12 Some examples of weaknesses we found in SNB's quality control processes include instances where:

- the property assessment value reviewed by SNB was not the same value used on the tax notice (the impact of market adjustment factors and new construction amounts were not included in the review); and
- changes could still be made to a property assessment value after it had been reviewed.

We also found the process SNB uses to track its quality control work is manually intensive, prone to error and not reviewed.

- 11.13** We made recommendations to SNB to improve its quality control processes for property assessment values.
- Recommendations*
- 11.14** We recommend SNB improve the quality control processes used to verify the accuracy of property assessment values before next year's billing cycle.
- 11.15** We recommend SNB:
- include property assessment values used for billing in its quality control processes; and
 - include the impact of items such as market adjustment factors and new construction as part of quality control processes.

Improvements Needed in Mass Appraisal Processes

- SNB uses mass appraisal processes*
- 11.16** It is not possible for SNB to physically inspect each property in the Province every year. For properties that do not receive a physical inspection, SNB uses mass appraisal techniques (also known as market adjustment factors) to estimate property values. SNB estimates a significant number of property assessment values each year using this method.
- 11.17** When performing mass appraisals, SNB estimates property assessment values based on recent sales data for similar properties within defined neighbourhoods of the Province.
- Mass appraisals adjust last year's assessment values*
- 11.18** Each defined neighbourhood is assigned a market adjustment factor. This factor is applied to last year's property assessment value and can result in an increase, a decrease or no change to property assessment values. The adjusted amount is used for the tax notices issued in March of each year.
- Weaknesses in mass appraisals*
- 11.19** We found weaknesses in SNB mass appraisal processes related to market adjustment factors including:
- the review process had weaknesses, such as lack of quality control;
 - too many staff had access to change market adjustment factors; and
 - changes could be made to market adjustment factors without proper approval.

- 11.20** We made recommendations to SNB to improve its mass appraisal processes.
- Recommendations*
- 11.21** We recommend SNB improve the market adjustment factor processes by reviewing the accuracy of market adjustment factors uploaded to the system, as well as any subsequent changes to approved market adjustment factors.
- 11.22** We recommend SNB document and retain evidence of all market adjustment factor reviews for audit purposes. This includes the review and approval of market adjustment factors prior to upload.

Improvement Needed in Review of Assessor Work

- Assessors work is not always reviewed*
- 11.23** We found much of the work of property assessors perform is not reviewed. Property assessors perform work such as measuring and recording the physical characteristics of properties and then entering this information into the system which then calculates property assessment values.
- Assessing property assessment values is complex*
- 11.24** Assessing property assessment values is a complex process which requires specialized training, complex calculations and significant use of judgment. In our view, because assessors work mostly independently, the risk of undetected errors in property assessment values is high if the work is not reviewed.
- We noted areas where review of assessor work would improve the quality of assessment data*
- 11.25** During our work, we examined support for assessment data for 62 properties with the assistance of SNB property assessors. We noted several weaknesses which demonstrate the need for increased review of the work performed by SNB property assessors. These include instances where:
- properties were not measured correctly which resulted in errors in property assessment values; and
 - data used to generate assessment values did not agree to support we were provided.
- 11.26** We also noted properties may not be physically inspected for periods of up to ten years and possibly longer. These properties may be significantly under assessed if improvements or changes to the properties are not identified by SNB.

11.27 While, in our view, it may not be practical for SNB to review all the work performed by its assessors, the items above demonstrate the need for increased review of assessor work to improve the quality of assessment data. One option could be for SNB to create a team and dedicate resources to reviewing assessor work using a risk-based approach.

11.28 We made recommendations to SNB to improve the review of assessor work.

Recommendation

11.29 We recommend SNB strengthen its processes to verify the quality of property tax assessment values by using a risk-based approach to review the work of assessors.

Improvement Needed in System Access Reviews

System access reviews need improvement

11.30 We found SNB has processes in place to periodically review the appropriateness of user access to the property assessment system. Even though these reviews are in place, we found weaknesses and areas where SNB can improve them.

Users had access they did not need

11.31 We found instances where, even after review, users had access to perform functions that were not required to fulfil their job responsibilities. This was because system access reviews did not thoroughly assess user access needs.

Review process is prone to errors

11.32 We also found user access is tracked manually and the review process is manually intensive which is prone to error.

11.33 In our view, inappropriate system access can impact the integrity of property assessment data as it increases the risk of error or unauthorized changes.

11.34 We made recommendations to SNB to improve its system access reviews.

Recommendations

11.35 We recommend SNB include the appropriateness of user roles as part of its user access reviews of the property assessment system.

11.36 We recommend SNB:

- **document guidelines for assigning appropriate property assessment system roles to users; and**
- **use these documented guidelines as part of regular user access reviews.**

11.37 We recommend SNB:

- **generate user access listings directly from the property assessment system; and**
- **use these user access listings when performing regular user access reviews.**