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April 2018

Dennis Valente, Supervisor
Members of the Town Board
Town of Davenport
11790 NY-23
Davenport Center, NY 13751

Report Number: P4-17-29

Dear Supervisor Valente and Members of the Town Board:

A top priority of the Office of the State Comptroller is to help Town officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support Town operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of 10 towns throughout New York State. The objective of our audit was to determine whether town assessors are properly administering select real property tax exemptions. We included the Town of Davenport (Town) in this audit. Within the scope of this audit, we examined Agricultural,¹ Persons 65 Years of Age or Older (Senior Citizens)² and Veterans³ exemptions for the period January 1, 2016 through July 27, 2017. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This report of examination letter contains our findings and recommendations specific to the Town. We discussed the findings and recommendations with Town officials and considered their comments, which are included in Appendix A, in preparing this report. Except as indicated in Appendix A, Town officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comments on an issue Town officials raised

¹ Section 305 of the Agriculture and Markets Law and Section 483 of the Real Property Tax Law

² Section 467 of the Real Property Tax Law

³ Sections 458, 458-a and 458-b of the Real Property Tax Law

in their response. At the completion of our audit of the 10 towns, we prepared a global report that summarizes the significant issues we identified at all of the towns audited.

Summary of Findings

The former and current Assessors did not properly administer select real property tax exemptions. Specifically, they did not maintain adequate supporting documentation and incorrectly calculated or classified several granted real property tax exemptions. As a result, we could not verify whether property owners received appropriate tax reductions totaling as much as \$20,900. If exemptions were not properly granted, it could have resulted in higher property tax bills for other residents. The failure to maintain adequate records, require annual renewals, verify and review information annually or correctly calculate exemptions increases the risk that individuals could receive exemptions to which they are not entitled on future tax rolls.

Background and Methodology

The Town is located in Delaware County, covers 52 square miles and has approximately 3,000 residents. The Town's 2017 budgeted appropriations totaled \$1.3 million. Major costs included road maintenance and improvements, snow removal and general government support. These costs are funded primarily through real property taxes and State aid.

The Town is governed by a five-member Town Board (Board). The Town Supervisor (Supervisor) is a Board member and serves as the chief executive and chief fiscal officer. Town residents elect a three-member Board of Assessors (Assessors). The Assessors are responsible for granting and tracking real property tax exemptions within the Town's boundaries, including the County and school districts. The Assessors determine the assessed values of properties each year for the assessment roll (2016), which is then used to create the tax bills for the following year's tax roll (2017). The Assessors are responsible for retaining a properly completed application form and additional supporting documentation that a property was eligible for an exemption. The Town had approximately 2,000 parcels totaling \$152 million in total taxable assessed value in 2016, with 224 Agricultural, Senior Citizens and Veterans exemptions totaling \$4.1 million in assessed value. The longest tenured member of the Board of Assessors has served the Town for three years. The Assessors work a combined total of 27 hours per week at the Town.

To complete our audit objective, we reviewed Agricultural, Senior Citizens and Veterans exemptions documentation for accuracy and propriety. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the standards and the methodology used in performing this audit are included in Appendix C of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Audit Results

To properly administer real property tax exemptions, the Assessors need to ensure applicants meet eligibility requirements and receive the proper calculated exemption amount. The Assessors should also verify that exemption codes are properly selected and amounts are properly calculated

in the Real Property Tax System. Lastly, the Assessors should also retain supporting documentation for those granted exemptions and consult with the New York State Office of Real Property Tax Services (ORPTS) or the Delaware County Real Property Tax Services Office, as necessary, for technical assistance.

Agricultural – The Agricultural exemption generally requires an average annual gross sales over the previous two years of \$10,000 for farms with seven or more acres of land, or \$50,000 for farms of less than seven acres. The Agricultural exemption amount is calculated based on a New York State certified soil productivity value for each parcel. Property owners receiving certain Agricultural exemptions are required to file a renewal form each year certifying the property remains eligible for the exemption. Although the renewal form does not require proof of income, Assessors should periodically verify farm income to ensure the property remains eligible.

Eighteen of the 20 properties we reviewed receiving an Agricultural exemption lacked one or more pieces of supporting documentation to verify the eligibility of these exemptions. All 18 properties lacked supporting documentation to show the farming operations met the income requirements, five did not have an original application, one did not have a soil productivity worksheet and one did not have a 2016 renewal form. These property owners may have inappropriately received \$15,400 in County, Town and School tax reductions for fiscal year 2017. Lastly, the Assessors do not periodically verify farm income when property owners submit their renewal forms.

Senior Citizens – The Senior Citizens exemption requires the property be used exclusively for residential purposes and owned by a person 65 years or older (with some familial exceptions), with varying income limits established by each municipality. Residents receiving the Senior Citizens exemption are required to file a renewal form each year, along with supporting documentation to show their income is below the threshold.

Seven of the 10 properties we reviewed receiving a Senior Citizens exemption lacked one or more pieces of supporting documentation to verify the eligibility of these exemptions. Specifically, five lacked proof of age eligibility, two lacked income support and two did not have the original application on file. Additionally, one exemption – which had supporting documentation – was incorrectly calculated based on income. In total, these exemptions may have resulted in property owners inappropriately receiving \$5,300 in County, Town and School tax reductions for fiscal year 2017.

Veterans – Requirements related to Veterans exemptions vary, but typically include that the primary residence is of a veteran (or a qualifying family member) of the United States Armed Services who actively served during certain eligible time frames or received an expeditionary medal and was discharged under honorable conditions. Towns may pass local laws that establish these exemptions, as well as raise or lower the maximum amount that a single property may be exempt from. Furthermore, disabled veterans may receive an additional exemption based on supporting documentation.

We reviewed 20 properties receiving 33 Veterans exemptions and found seven exemptions lacked supporting documentation. These property owners may have inappropriately received \$203 in Town and County tax reductions for fiscal year 2017. Furthermore, one exemption was incorrectly calculated based on supporting documentation. The Assessors entered a lower disability percentage into the Real Property Tax System for one exemption, resulting in the resident paying

a slightly higher Town tax bill for fiscal year 2017. Lastly, the Assessors granted a resident two incompatible Veterans exemptions, resulting in the resident receiving \$82 in inappropriate Town tax reductions for fiscal year 2017.

Granted exemptions reduce the taxable assessed value of a property and, therefore, the owner’s tax payment. To ensure the Town’s tax levy is fair and equitable, it is important that the Assessors determine every exemption is legitimate. The Town granted a total of 449 of these exemptions on the 2016 assessment roll, collectively reducing the taxable assessed value by almost \$8.6 million. We found exceptions with 81 of the 118 exemptions reviewed (Figure 1). These properties with exceptions had their total taxable assessed value reduced by almost \$2 million.

Figure 1: Fiscal Year 2017 Real Property Exemptions and Exceptions

Local Government Type	Total Exemptions^(a)	Total Exempted Value^(a)	Total Number of Exemptions Tested	Exceptions Identified from Records	Total Exempted Value of Exceptions
County	137	\$2,289,220	38	30	\$643,425
Town	224	\$4,086,098	51	26	\$640,150
School	88	\$2,203,171	29	25	\$674,035
Totals	449	\$8,578,489	118	81	\$1,957,610

^(a) This includes only Agricultural, Senior Citizens and Veterans exemptions categories.

Every exemption shifts the tax burden to the non-exempt properties. Therefore, the high rate of exceptions noted above (69 percent) can cause inequity among taxpayers for financing local government operations to the extent that exemptions are inappropriately given. The total exempted value for these three exemption categories is approximately 3 percent of the Town’s taxable assessed value. Many of these errors began prior to the current Assessors’ terms, and continue unresolved.

Recommendations

The Assessors should:

1. Ensure all applicants provide adequate supporting documentation before granting exemptions.
2. Correctly apply statutory provisions to granted exemptions and consult with ORPTS or Delaware County Real Property Tax Services Office, as necessary, for any technical assistance.
3. Maintain documentation to support eligibility for all exemptions.
4. Annually verify income to support Agricultural and Senior Citizens exemptions.

5. Ensure previously granted exemptions are supported and continue to meet eligibility requirements.
6. Review the assessment roll exemption summary annually for noticeable errors and make necessary changes.

The Board should:

7. Consult the Town's attorney regarding recovery and the potential legal and financial impacts the Town may face from prior years' erroneous exemptions.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk's office.

We thank the officials and staff of the Town for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

The Town officials' response to this audit can be found on the following page.

**Town of Davenport
Board of Assessors
11790 State Hwy 23
Davenport Center, NY 13751**

Phone (607) 278-6439

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Fax (607) 278-6439

Office Hours: 8:30-11:30am Tue & Wed.... and by appointment

To: Office of the State Comptroller

Upon receiving and reviewing the recommendations made in the draft audit report we, the Board of Assessors, have prepared this response.

Although we agree with some of the findings showing lack of documentation, we do not agree with being accountable for collecting documentation for original applications in years past and prior to any of our tenure. It is the current practice of this office to collect age documentation, verifying income, verifying service records and application for exemptions and renewals.

See
Note 1
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For the past year we have been organizing, sorting and reviewing the archives of files and boxes of documentation left from prior assessors, this is a work in progress to fulfill the requirements of our data collection and documentation.

Addressing our Agriculture Exemption files we have begun reviewing each file with the county director and the dept. of Soil and Water to make sure each exemption file is up to date and meets documentation requirements. There has only been one new exemption since our tenure.

Addressing our Senior Citizens Exemption files we will be reviewing each for documentation needed in older files. Exemptions granted from 2016 forward have all been completed correctly.

Addressing our Veterans Exemption files we have reviewed all and contacted the Dept. of Veterans Affairs for confirmation. All files are complete.

We would like to thank the auditors for their professionalism in completing our audit in a timely manner.

Sincerely,

Board of Assessors
Michael Bordinger-Lutz
Don Wood
Glenna Jeschke

10/24/17

Dennis Valente

Supervisor

APPENDIX B

OSC COMMENTS ON THE TOWN'S RESPONSE

Note 1

Assessors must annually certify the assessment roll as accurate and complete for all exemptions, regardless of which Assessor originally granted them.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials and reviewed applicable local legislation to gain an understanding of the audit scope. We inquired with the Assessors about the real property exemption process and record keeping requirements.
- We randomly selected 20 properties with an Agricultural exemption totaling \$2.9 million in assessed value for further testing. We reviewed the original application⁴ to determine whether all required documentation was submitted. This included a soil survey from the Soil and Water Conservation District, if available. We reviewed any income support to determine whether the farmer met the minimum requirements. If applicable, we also determined whether the property had a current Agricultural exemption renewal form on file. If the property was leased to another farmer, we determined whether there was a current lease on file. We then recalculated the exemption for all 19 properties with available supporting documentation to determine whether the property received the proper exemption amount. We also performed an aerial observation of the property using mapping software to verify the property did not appear fallow or uncultivated. We then calculated the tax dollar effect of any exceptions found.
- We randomly selected 10 properties with a Senior Citizens exemption totaling \$725,000 in assessed value for further testing. We verified the income reported meets the eligibility as established by each municipality. We noted whether any record of income or age was retained. We recalculated the exemption amount based on supported income and then calculated the tax dollar effect of any exceptions found.
- We randomly selected 20 properties with a Veterans exemption totaling \$2 million in assessed value for further testing. We reviewed the record retained in the property folder to justify the exemption. We recalculated the exemption amount to verify the property received the appropriate exemption amount.
- We reviewed the assessment roll for any apparent irregularities in exemptions granted and selected an additional property receiving incompatible Veterans exemptions totaling \$117,000 in assessed value. We then calculated the taxable effect of these errors.

We conducted this performance audit in accordance with GAGAS. 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.

⁴ https://www.tax.ny.gov/pdf/current_forms/orpts/rp305_fill_in.pdf