Personal Property Tax

Improve processes and shift efforts to compliance

August 2005

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MEMORANDUM

Date: August 8, 2005

To: Diane Linn, Multnomah County Chair
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Lonnie Roberts, Commissioner, District 4

From: LaVonne Griffin-Valade, Multnomah County Deputy Auditor
Subject: Personal Property Tax Audit

The attached report covers our audit of the County's personal property tax function within the Department of County Management. This audit was included in our FY04-05 audit schedule.

The audit focused on the work of the Property Valuation Division, the group responsible for assessing and calculating the personal property taxes due from businesses in the county. Our goal was to determine whether personal property valuation is efficiently and effectively managed. Personal property includes the machinery, furniture, non-inventory supplies, and equipment owned or leased by a business.

We found that the system used by the Property Valuation Division is outmoded, unnecessarily labor intensive, and inconvenient for businesses. We estimated that by simplifying how businesses file returns, the County could save a minimum of $120,000 annually. Further, the County could invest those savings into auditing for taxpayer compliance and capture as much as $700,000 more in revenues each year. Increased auditing of personal property returns would not only lead to higher tax revenue, but it would help even the playing field for businesses.

The modifications suggested in this report are low in cost and require adopting methods already used successfully by many other jurisdictions. Innovations such as electronic filing and maintaining a database of personal property that is updated annually would reduce the time and money needed to process returns. More importantly, resources could then be directed toward auditing returns, an activity that now occupies only a small percentage of personal property staff time.

We recommend that the Property Valuation Division begin maintaining an electronic record of property detail that is in sync with most businesses. They should also streamline the annual processing of returns with an adds/deletes method of filing returns. Other electronic processing options should be investigated and then implemented. Along with that, staff should receive sufficient training on any new or changed system so they can effectively carry out their work. Further, Property Valuation needs a written plan to guide the implementation of these needed improvements, and this plan should be informed by the expertise of the staff doing the work.

We will conduct a formal follow-up of this audit beginning within a year to 18 months to determine the progress made in implementing recommendations.

We would like to acknowledge and thank the management and staff in the Department of County Management for the cooperation and assistance extended to us throughout the audit.

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Summary

Businesses with personal property in Oregon must file an annual tax return. Counties are responsible for assessing personal property and collecting the tax, except for certain large industrial accounts and utilities. Taxable personal property includes machinery, furniture, non-inventory supplies, and equipment owned or leased by a business.

Multnomah County oversees personal property tax assessment and collection for almost a third of the combined value of all business personal property in Oregon. In Fiscal Year (FY) 2004, personal property added $2.5 billion in assessed value to the County's tax roll, and the County collected $44 million in personal property taxes. Most of those revenues were distributed to other local governments, school districts, and taxing districts within the county. Nearly $11 million went to fund County operations.

Within the County, the Property Valuation Division is responsible for assessing the value of personal property and calculating the taxes due. A separate division is responsible for preparing tax bills, collecting property taxes, and distributing tax revenues to taxing districts. The purpose of our audit was to determine whether personal property tax valuation is efficiently and effectively managed by the Property Valuation Division.

We found that the personal property system used by the County is outmoded and labor intensive. For example, a typical tax return is handled a minimum of 10 times by a number of staff. Because most of the information from personal property returns is not stored electronically, each item of personal property must be valued and re-entered into the County's computer system every year. This process increases the risk of valuing property differently from one year to the next and makes determining compliance more difficult.

Our review of how other jurisdictions manage personal property assessment provides examples of how the County's processes could be made more efficient through such innovations as electronic filing, electronic storage of personal property detail, and web filing. In addition, other counties in Oregon use an "adds/deletes" system where taxpayers simply note new and discarded property on their returns rather than listing all items of personal property each year. We estimated that if the County maintained a full listing of taxpayers' personal property and adopted an adds/deletes system, a minimum of $120,000 could be saved annually.

Furthermore, the County could capture as much as $700,000 more revenue each year by investing saved resources from more efficient return processing into auditing for compliance. Ensuring greater compliance also promotes equity in the personal property tax system.

Besides the benefits of saving money through a more efficient process and capturing escaped tax revenue through more extensive compliance monitoring, we found that businesses would welcome changes in how the County processes personal property returns. We contacted a wide range of businesses, from small companies to the County's top four personal property taxpayers. The majority of these businesses told us that they would prefer to file electronically and that an adds/deletes filing method would be an improvement. Many of these businesses also favor a more transparent process for personal property assessment so that they can better understand how their property was valued.

The County recognizes that increased efficiency and compliance would yield greater tax revenue and has begun to institute changes. However, we found that within Property Valuation, planning and communication are limited, and as a result, staff morale is low and improvements may not be as effective as they could be. A number of staff said their experience and opinions are not valuable to management and that they are not informed about proposed changes.

We recommend that Property Valuation begin maintaining an electronic record of property detail and implement an adds/deletes method of filing personal property returns. Electronic processing options should be further explored and training efforts should be intensified to ensure that all staff are well trained to effectively perform their duties. A written plan that is informed by and shared with staff is needed to guide these necessary improvements. Our recommendations outline the components that should be included in the plan.

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Background

Overview of personal property tax administration

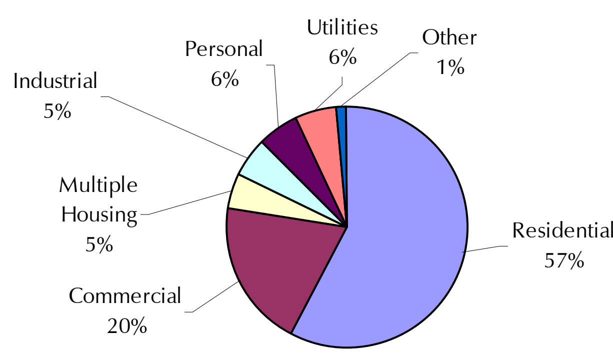
Every business in Oregon owning personal property must file an annual personal property tax return. Oregon's Department of Revenue (DOR) is responsible for administering the business personal property tax. Except for certain large industrial accounts and utilities, DOR has delegated the responsibility for assessing personal property and collecting the tax to Oregon counties. Multnomah County manages the personal property tax roll for about 29% of the combined value of all the taxed business personal property in Oregon.

In Fiscal Year (FY) 2004, Multnomah County collected about $44 million in personal property taxes from approximately 28,000 accounts. After distributing tax revenues to local governments, school districts, and other taxing districts within its borders, the County's portion of this revenue was approximately $10.7 million.

Personal property adds approximately $2.5 billion in assessed value to Multnomah County's property tax roll. As shown in Exhibit 1, personal property makes up about 6% of the total assessed value for all property types in the county.

Exhibit 1

Assessed Value by Type of Property



Source: OR Department of Revenue Tax Statistics FY2003-2004

Businesses in Multnomah County file their annual personal property tax return with the Multnomah County Assessor. Personal property is valued at 100% of its real market value in the county where it is located on January 1. The real market value of personal property is based on each item's original purchase price and age, which are multiplied against a depreciation schedule provided by DOR. Taxable personal property includes machinery, equipment, furniture, non-inventory supplies, and leased equipment. Manufactured homes and floating property are also taxed as personal property.

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Businesses complete their confidential tax returns by listing taxable personal property, its cost, and date of purchase. The return is due on March 1, but filers can request a time extension. Although all businesses must file a return every year, those with less than $13,000 in total personal property within the county are not required to pay a tax.

Property tax statements are mailed to taxpayers in late October, and at least one third of the tax must be paid by November 15. Taxpayers are allowed to pay the tax in three installments, but a 3% discount is provided if the full amount is paid by November 15. Taxpayers also have the right to appeal if they believe the value of their property has been incorrectly assessed.

Organization and funding of personal property functions

The personal property tax is administered by the Assessment and Taxation Division (A&T) in the Department of County Management. Within A&T, the Property Valuation Division and the Tax Collection and Record Management Division administer all property taxes, including personal property taxes.

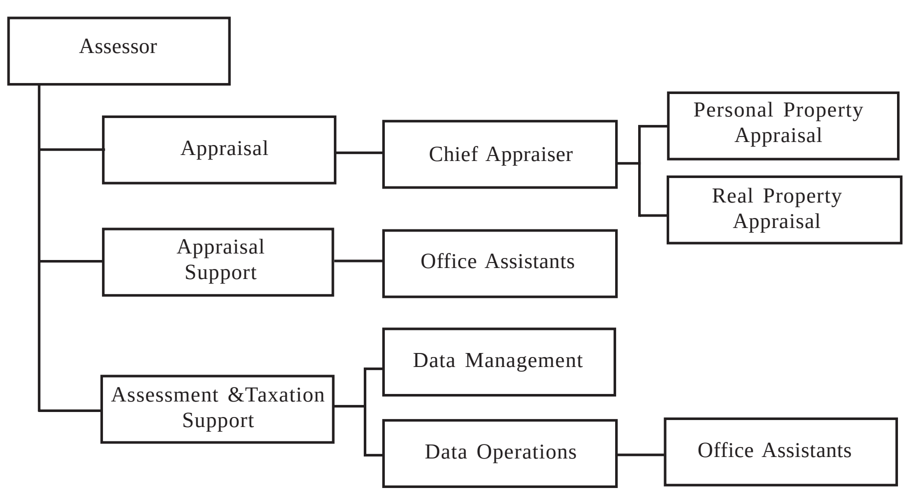
The Property Valuation Division is responsible for assessing the value of and calculating the tax due for all real property and taxable personal property in the County. The Collection Division prepares tax bills, collects property taxes, and distributes taxes to the taxing districts in Multnomah County.

Within the Property Valuation Division, one supervisor, three personal property appraisers, and three appraiser technicians are directly responsible for assessing the value of business personal property. The Appraisal Support section also dedicates a total of six full-time equivalent (FTE) support staff throughout the year to process personal property taxes. An additional three FTE from information technology, temporary workers, and administration assist in the personal property assessment process.

We estimated the FY2005 annual costs of personal property tax valuation and collection at about $1.5 million, based on a total of 19.5 FTE. About 80% of the costs and FTE to administer personal property are in the Property Valuation Division. The County receives funding for personal property tax administration from DOR through an annual grant that pays about 38% of the administrative cost. The other portion of the cost is paid from the County's general fund (57%) and a small amount (5%) through licenses and fees.

Exhibit 2

Personal Property Valuation



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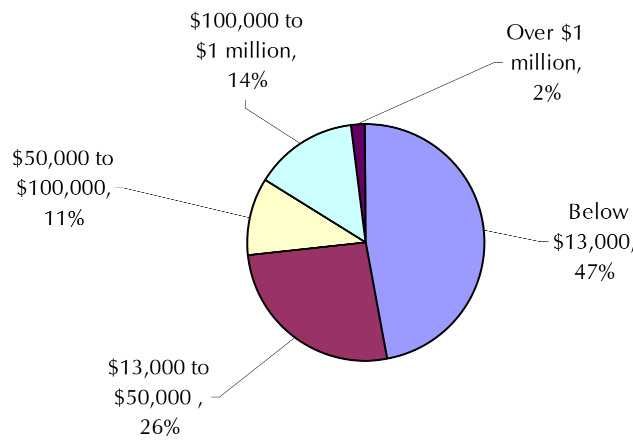
Distribution of personal property accounts

Of the 28,000 accounts on the 2004 tax roll, 22,291 personal property tax returns were filed by November 2004 and processed through the Appraisal Support Section. These returns exclude about 500 lease companies that are specially processed. As shown by the charts below, most of the returns filed are from small businesses with little assessed value. In fact, almost half of the returns filed were assessed at less than $13,000, so no personal property tax was owed. On the other end of the continuum, only two percent of the returns contributed 48% of the County's assessed value for personal property.

Exhibit 3

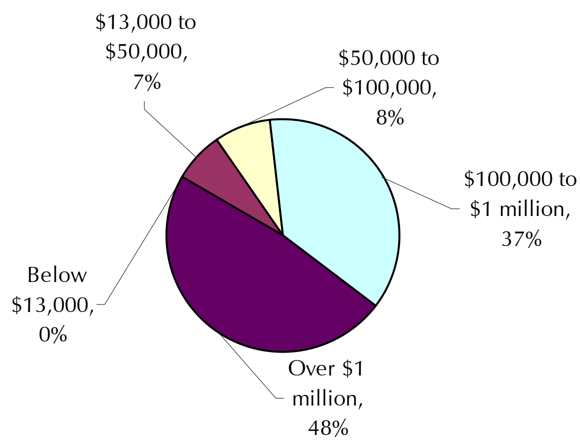
Number of Accounts



Source: Auditor's Office Analysis of FY04 Tax Roll

Exhibit 4

Value of Accounts



Source: Auditor's Office Analysis of FY04 Tax Roll

The size and complexity of the returns vary widely, depending on the amount of property that a business has. For example, the return for a small business run from a home office will have a much smaller personal property inventory and so will take much less time to process than would the return for a large business, such as a grocery store chain.

Scope and Methodology

The objective of the audit was to determine whether personal property tax valuation is efficiently and effectively managed by the Property Valuation Division. We did not examine the appeals process and we excluded the taxation of manufactured structures from our review.

We reviewed Oregon Revised Statutes and related Oregon Administrative Rules governing property taxation. We also reviewed budget summaries, organizational charts, policies and procedures, and job descriptions. Prior audits performed by our office were revisited to check the status of applicable recommendations.

We analyzed records of personal property returns as of November 2004, personal property tax data from the Oregon Department of Revenue for the last five years, and data from the Assessor going back 15 years. We also examined the 2004-2005 Property Tax Grant Application to the Oregon Department of Revenue.

We interviewed the Assessor, Chief Appraiser, Personal Property Tax Supervisor, Appraisers and Appraiser Technicians, supervisors in Appraisal Support and Data Operations, and several staff in the Appraisal Support and Assessment and Taxation Data Management section. We also interviewed the temporary personal property tax auditor and looked at the results of his efforts.

Other jurisdictions were contacted to see how they administer their personal property taxes. We spoke with these jurisdictions about managing property detail, self-assessment of property value, classification of property, leases, and various methods of electronic filing. In Oregon, we interviewed personal property tax supervisors in Washington and Marion counties, as well as personal property tax staff at the Oregon Department of Revenue. We looked at electronic filing processes in five out-of-state jurisdictions.

We contacted the top four tax revenue generating businesses in the county and conducted a frequency distribution of account size and business type to select an additional 26 businesses for input on various aspects of personal property tax administration. We also reviewed 58 personal property returns for 2004. We discussed with business owners or their Certified Public Accountants the merits and disadvantages of electronic filing, the adds/deletes method, and general concerns and attitudes toward the County's assessment of personal property.

We reviewed payroll and financial data to determine staffing levels and program costs. Because all program costs are not discretely budgeted, Property Valuation Division personnel allocated staffing percentages to personal property functions. We further examined tax return processing costs of Appraisal Support and Data Operations. Appraiser and Appraiser Technician production reports were analyzed for calendar year 2004.

This audit was included in our FY2004-2005 audit schedule and was conducted in accordance with generally accepted auditing standards.

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Audit Results

Personal property assessment processes are outmoded and inefficient

The system that the County uses for assessing the value of personal property is outmoded and inefficient. Taxpayers are already ahead of the County technologically in that many prepare and store their returns electronically. Other jurisdictions—both within and outside of Oregon—employ a variety of methods for assessing the value of personal property accounts that are more efficient than the County's current system.

For over 10 years, Multnomah County has used the same manual system to process personal property returns. In this process, a typical return is handled a minimum of 10 times and often as many as 12 or more times by support staff, temporary coding staff, data entry staff, and sometimes appraisers and appraiser technicians. Although personal property makes up about 6% of the total assessed value for all property types in the County, it accounts for about 14% of the total tax administration costs.

As depicted in Exhibit 5 on page 8, when a personal property return is received by the County, it is date stamped, then reviewed by support staff to ensure that the name, address, and legal description listed on the form are correct. Next, the return is sent to data entry to be recorded as "received" in the central computer system. The recorded returns are then bundled in batches and given to support staff, who code each item listed on the return's inventory of personal property with a depreciation code. Some returns, from businesses with relatively little personal property, are quickly coded. Other returns can take days to code.

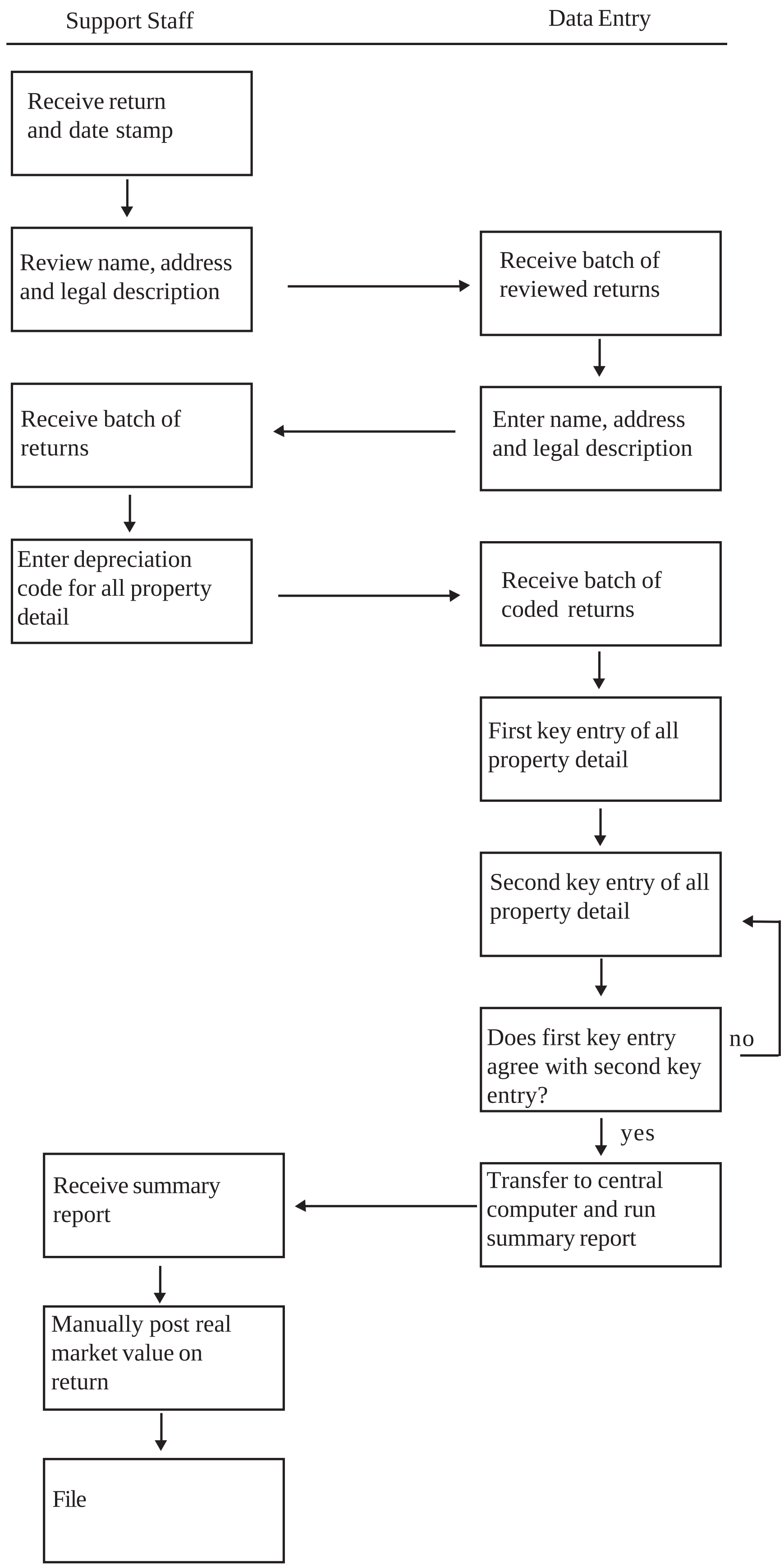
Once coded, the return is submitted for a second time to data entry, where staff enter each item's original purchase price, the date purchased, and the depreciation code in order to calculate its real market value. A different data entry specialist enters the same information again to ensure accuracy. The return is then put in a batch with other personal property returns and is given to the data entry supervisor. The data entry supervisor transfers the information to the central computer program which calculates the real market value and creates a summary report of the returns processed.

For each return, the summary report shows the account's current real market value, the prior year's real market value, and the percent difference between the years. Support staff then manually transfer to the front of the return the total real market value as calculated by the central computer system. If there are no other problems with the return, it is placed in storage. The individual data entered from the return are purged from the central computer system so that only the total real market value for the current and prior year is kept electronically.

Often, a return is flagged for appraisal staff to review because its real market value is higher or lower than it was the year before based on a predetermined percentage. Also, sometimes an appraiser asks to see the return when it comes into the office, or support staff have questions about how items should be valued. In those cases, the returns are routed to appraiser technicians. The technicians

Coding and data entry for typical personal property returns

Exhibit 5



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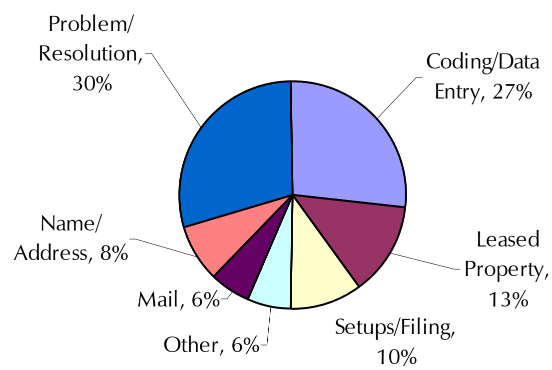
may double-check the return's coding or call the taxpayer to resolve the issue. In some cases, the appraisers or appraiser technicians will pull prior personal property returns from the files and create excel spreadsheets on their desktop computers to compare the changes in taxable personal property over time. The central computer system does not retain an electronic copy of personal property returns and taxable property, so the data must be recreated.

Most effort and expense fall into three categories

Our analysis of the costs shows that the most expensive parts of the process are (1) coding the itemized list of personal property on the returns and entering them into the central computer, (2) problem resolution, and (3) processing returns for leasing companies.

Exhibit 6

Return Processing Activities by Cost



Source: Auditor's Office analysis
Note: Total tax return processing activities are estimated at about $642,000. "Leased Property" includes other categories of costs such as coding/data entry that relate exclusively to lease activities.

"Coding/data entry" is the process of writing a depreciation code next to each item listed on a personal property listing, entering these codes along with the original purchase cost and date purchased into the central computer, then manually transferring the calculated total real market values to the paper return. The coding process involves staff for coding, data entry staff for entering the information, and support staff for transferring total real market values to each return. Coding/data entry accounts for 27% of the cost of processing returns.

"Problem resolution" is a catchall term used by appraisers and appraiser technicians for resolving issues on returns that cannot be resolved by support staff. For example, if support staff are unsure how to code an item, or if the taxpayer did not complete certain fields, support staff give the return to the personal property appraisal staff for resolution. Problem resolution accounts for 30% of the cost of processing personal property returns.

Processing returns for leased property is especially expensive because of the intricacy of processing the returns of leasing companies. In most cases, taxpayers who lease equipment do not pay the personal property tax on that equipment, but they must list the equipment as "leased" on their returns. Leasing companies also list all of their equipment that is leased out. The County's staff must then compare the returns of the lessors and lessees to make sure that all of the equipment is accounted for and not taxed twice.

Staff responsible for processing lease returns do all of their own coding and maintain a database of information separate from the detail maintained by the central computer system. Staff also take the additional step of submitting the coded listings to leasing companies for verification before the County prepares tax bills for these companies. Leased property accounts for 13% of the cost of processing returns.

Current focus is on processing rather than compliance

Historically, ensuring compliance has played only a small role in the County's management of the personal property tax. In 2004, only 1% of the appraisers' and appraiser technicians' time was spent auditing returns, while about 44% involved processing returns. Appraisers told us that they reviewed returns when there was a variation from the prior year based on a predetermined percentage or when the taxpayer called the County about the return. Through 2004, there were no criteria as to how to select returns for auditing for compliance. As a result, some of the County's largest taxpayers may not have their returns reviewed regularly. For example, the tax manager for one of the top five personal property taxpayers in the County said they had not been audited for 10 years.

Although they handle almost every personal property tax return submitted, support staff are not trained to detect and respond to noncompliance in personal property returns. Support staff do not compare returns from year to year and do not look for consistency across years. Management indicated that such work might be out of class for these individuals. Items may be coded differently from year to year, leading to inaccuracies and inconsistent assessment. In contrast, appraisers and appraiser technicians see significantly fewer returns, yet they are the only staff to receive training from DOR on how to value items, detect inconsistencies, and differentiate real from personal property.

Finding taxpayers who may not be properly listing all of their personal property is further complicated by the fact that the County has not required taxpayers to comply with the law in preparing their returns. Some returns are highly detailed, while others simply note "same as last year," creating additional work for the support staff and room for error. In total, of the 58 returns we randomly selected, only a few were correctly completed, and only about half listed personal property items individually, as required. It is difficult—if not impossible—to monitor accounts for compliance with the law when returns are not filled out as the instructions require.

For example, one return we reviewed did not itemize personal property as required on the return, but listed only a total estimated value for the property as a whole. The taxpayer said she has never been contacted by the County for more detail. Another return listed individual personal property, but did not list when the items were purchased and their original costs. Still another return grouped items in the personal property inventory together in categories such as "phones, faxes, and aquariums" rather than listing each item separately with original cost and date of purchase. Management stated that they have little authority to require taxpayers to correctly complete their returns.

Finally, the County has little assurance that machinery and equipment are correctly identified as either industrial real property or personal property. Broadly stated, machinery and equipment that is industrial real property consists of property used in business that is attached to a building. Personal property can be moved and is not attached. For example, a compressor that is bolted to the

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floor of a factory is considered real property. The same compressor, mounted on a trailer to move when necessary, is considered personal property. Machinery and equipment can be listed on a personal property tax return or on an industrial real property tax return.

The tax rate for all machinery and equipment—whether it is classified as industrial real or personal property—is the same. Any difference in value is due to the initial valuation and how quickly the property depreciates. According to DOR, machinery and equipment classified as personal property generally depreciates faster than the same property classified as industrial real property. Accordingly, if machinery and equipment is misclassified as personal property instead of industrial real property, the County is potentially losing tax revenue.

We found that Multnomah County has not systematically reviewed personal and industrial real property listings for proper classification and to ensure that all machinery and equipment is included on the tax rolls or not counted twice. The County currently does not keep a complete listing of industrial machinery and equipment. Ideally, the County would have an electronic listing of both industrial and personal machinery and equipment that, when combined, would provide a complete listing of an industrial account's machinery and equipment and facilitate accurate property classification.

Another important component of compliance is "discovery," or identifying new personal property accounts and businesses that should have been filing personal property returns but have not. In this area, the County has recently increased its efforts, including trading electronic databases with the cities of Portland, Lake Oswego, Gresham, and Troutdale business license offices to identify businesses that have not filed personal property returns. In the case of the City of Portland, an analysis of businesses newly licensed in 2003 took about four hours and added an estimated $6 million in value to the tax roll.

County lags in use of technology

Interviews with businesses, including those that are small to medium-sized, reveal that many have recognized the benefits of electronic record keeping and devised their own electronic filing systems to handle personal property tax returns. Businesses say they keep electronic lists of property and update their files electronically. Companies cite several benefits to electronic filing, including that it is faster, saves time, and is more efficient than keeping handwritten records that have to be photocopied. Some say electronic record keeping saves paperwork and time updating and printing out an electronic list of inventory. Others mention that more and more systems are becoming electronic and "that's how things are done now days."

The accounting firms and Certified Public Accountants we spoke with all used some form of electronic filing with their clients. Two of the four we contacted mentioned that they use software programs to produce listings of assets used to file personal property tax returns. The four large companies we talked with have also developed standardized procedures using electronic record keeping to manage their personal property listings. One large business explained that it would be unrealistic to manage their business assets list using a hardcopy due to the volume of items. They say having an electronic database is important.

Other jurisdictions use more efficient methods

We found that Multnomah County is not taking advantage of technological advances that could make managing personal property assessment more efficient and effective. Methods used by other jurisdictions demonstrate that efficiencies can be gained through computerized alternatives such as electronic filing. In addition, many of the methods used by other jurisdictions directly reduce the costs of coding and data entry, and so could be especially effective if applied to Multnomah County's process.

Our research of counties within Oregon as well as jurisdictions in other states shows that electronic filing alternatives can be configured in many different ways to reduce paperwork and to improve efficiency and effectiveness. Some jurisdictions combined several electronic options while others just focused on one. All jurisdictions that we spoke with about electronic options also allowed taxpayers to file a paper return if they preferred.

Washington County, Oregon provides an example of one method of electronic filing, focusing on a small number of large accounts. As in Multnomah County, a relatively few businesses make up a large portion of the workload. A spreadsheet is used to track all items of the taxpayer's taxable personal property and is copied onto a CD or diskette. In some cases, Washington County receives written permission from the taxpayer to e-mail the information. The spreadsheet also includes depreciation tables to help value the property. The CD or diskette is mailed to the taxpayer along with a paper return for signature.

Once received, the taxpayer updates the property detail by adding new property and marking any disposed property. For these few accounts, Washington County also lets the taxpayer enter the depreciation code for new property added since the last return. When the code is entered, the spreadsheet automatically computes a value. Once the spreadsheet is completed the taxpayer can understand how their property has been assessed. By focusing on even a few large businesses, savings are realized. The tax supervisor at Washington County said that using an electronic spreadsheet for just one large business's return cut processing time from over two months to about a week. It also eliminated the company's paper return, a 1½ -foot high inventory of personal property items.

DOR uses a spreadsheet system similar to Washington County's for its industrial accounts. Property on the spreadsheet already has its depreciation code locked in from the prior year and has a value assigned. The taxpayer updates the spreadsheet by adding any new property and indicating property disposed. In contrast to Washington County, DOR enters the depreciation codes for all of the property additions each year.

The State of Washington is in the first stages of switching to electronic filing. A fill-in form is available on a website for taxpayers to download. The state informs the taxpayer on the form that the completed electronic tax return is not confidential when e-mailed back to the counties, then lets the taxpayer make the choice to e-mail or send in a CD or diskette. Once the return is received in the electronic format from the taxpayer, whether by disk or by e-mail, the counties assess the values. The State of Washington passed a law so that signatures for electronic returns are not required.

Denver uses both online filing and e-mail attachments as a convenience to taxpayers and to achieve greater efficiency and accuracy over filing paper returns. Denver maintains property detail electronically and uses an adds/deletes method of filing. Denver does not mail property detail to taxpayers but instead makes it available online. The e-mail attachment spreadsheet has been designed to transfer data to their central computer.

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Denver's electronic filing savings come mostly from large accounts using e-mail attachments. The Director stated it has saved them approximately 1.5 FTE. Returns that might have taken a week to process now only take a couple of hours.

The State of South Carolina uses a sophisticated fill-in program for its personal property returns. Fill-in program software is loaded on the taxpayer's computer. The software includes the program as well as the property detail of the business. The taxpayer runs the program on his computer then submits the results to the state by CD, diskette, or e-mail.

To ensure confidentiality, South Carolina uses encrypted e-mail. Tax officials from South Carolina state that the encrypted e-mail solution is also more reliable than CD or diskette and is efficient in the transfer of data. Encrypted e-mail provides step-by-step tracking of data delivery, receipt, and processing.

South Carolina said that the fill-in program is "less expensive, cost effective and very easy to manage" and indicated that the fill-in program has reduced their paperwork by 50%. South Carolina also uses two less FTE to process their personal property returns by using the fill-in program.

Several jurisdictions we contacted used e-filing for personal property tax returns. With e-filing, taxpayers complete their personal property tax returns online. Generally, personal property detail is provided online as part of the e-file program. Taxpayers add property acquired to this listing and indicate property disposed. Controls are built in to the program to ensure completeness and accuracy. For example, the e-filing program only accepts the return if all the required information is entered. Confidentiality is addressed through enrollment procedures, user identification, and passwords.

E-filing programs vary in sophistication. Charlotte County, Florida uses e-filing to get property data into an electronic format for tax staff to further process. In Sedgwick County, Kansas, information completed online by the taxpayer directly feeds into the main property tax computer with little processing.

To complement e-filing, some out-of-state jurisdictions also used other electronic alternatives such as e-mail filing, and filing by a disk or CD. These jurisdictions reported that other electronic alternatives are generally better than e-filing for large companies with many assets.

Efficiencies would increase savings, revenue, and taxpayer satisfaction

Besides saving money, improvements in how Multnomah County processes personal property returns would yield benefits in these additional areas:

- Investing the saved resources into compliance, coupled with a new process, could recover significant escaped tax revenue. For example, implementing an adds/deletes method of filing returns would save the County over $120,000 each year. Investing this savings into monitoring compliance could significantly increase revenues and promote equity for taxpayers.
- Businesses would appreciate changes in how personal property returns are managed, especially changes that allow for electronic filing, increased transparency of how the County manages individual returns, and greater consistency with how other counties within Oregon administer the personal property tax.

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The money that the County would save by processing personal property returns more efficiently could be invested into increased auditing for compliance. Increased auditing would, in turn, reap even larger benefits by capturing escaped tax revenue and ensuring equity. As an example of the tax revenue that can be captured from increased auditing, last year the County hired a part-time employee specifically to audit personal property accounts. The auditor selected taxpayers to audit based on unfinished audits left by a former appraiser or accounts that were referred by the appraisers. Working part time from February through December 2004, the auditor uncovered $12.9 million of escaped personal property tax value, for additional tax revenue of more than $225,000.

The personal property appraisers also audited accounts, but their timesheets show that in 2004 they spent about 1% of their time conducting audits. If more of the appraisers' time was shifted to auditing, tax revenues would likely increase further. Appraisers spending 50% of their time conducting audits instead of 1%, could, according to one estimate based upon the experience of another jurisdiction, increase tax revenues by $700,000 per year and support equity in the system.

Increased auditing for compliance would help ensure that taxpayers are treated equitably, as required by Oregon's Constitution. Increased compliance means that a business owner can feel more certain that a competitor does not have the economic advantage of not paying taxes.

Improving how personal property returns are processed would also make auditing more effective by providing greater consistency in how returns are completed. In addition, depending on what improvements were undertaken, the changes could provide greater tools for auditing. For example, unlike Multnomah County, some jurisdictions store electronic copies of personal property detail, allowing staff to easily compare inventories of property from year to year to look for irregularities. Another benefit of electronic copies of property detail is that it would allow staff to perform regression analysis to survey the value of certain property and develop statistical "norms" for businesses, providing another tool for determining compliance.

Processing only added or removed property would save time and money

According to DOR, Multnomah County is the only county in Oregon that requires taxpayers to prepare a list of all personal property each year that a return is filed. Other Oregon counties require taxpayers to submit a full listing of personal property only the first year that they file. For subsequent years, taxpayers can choose to list only property added during the year and indicate any deleted property. This is called an "adds/deletes" method of filing. For a workable adds/deletes method of filing, the County should maintain an electronic listing of taxpayer's personal property detail. The DOR's 1998 guide *Methods for Valuating Personal Property* suggests the adds/deletes method as a way to improve efficiency.

Each year, a paper or electronic listing of the property detail could be provided to taxpayers with their tax returns. Taxpayers could update the listing of property detail and send it back with a signed tax return or choose to only list any changes on the tax return.

As our review of the practices of other jurisdictions shows, an adds/deletes process can be designed in different ways. Even using the less efficient paper-based system of filing most commonly used by Oregon's counties, we conservatively estimate that switching to an adds/deletes system would save over $120,000 per year in support staff costs. This estimate assumes that coding and data entry activities will be reduced by 70%.

The initial year of implementing an adds/deletes system will have one-time-only costs of entering all property detail onto the central computer. Currently, data entry staff only key the year of purchase, original purchase price, and depreciation code for each item, but not the description of each item. However, if the County institutes an electronic filing system, much of the property detail could be uploaded automatically onto the central computer, bypassing the need for data entry staff.

Recently, about $2,500 in programming changes were made to the central computer system to display property detail in a format that can be understood by taxpayers and to allow the central computer system to calculate values more efficiently. Management estimates an additional $3,000 of programming changes will be needed to fully ready the central computer to process returns using an adds/deletes system. According to our interviews with data management staff, there is available capacity to store property detail.

As the County moves away from paper-based filing and towards electronic filing, more savings from an adds/deletes method would likely result because property detail could be managed even more efficiently. For example, it is possible to send property detail with encrypted e-mail or, with the taxpayer's permission, using regular e-mail. The County could also provide property detail to taxpayers on a spreadsheet using CDs or diskettes. Taxpayers could also choose to e-mail their tax returns back to the County.

When asked about their interest in an adds/deletes process for Multnomah County, nearly all businesses in our sample gave a positive response and indicated that would be an improvement over the current system. Taxpayers with experience filing in other Oregon counties that use an adds/deletes system say the property listings that they get from other counties are very helpful and provide a way to ensure accuracy. Although the adds/deletes process may save taxpayers time in preparing their personal property tax returns, some say the true benefit is that it provides accountability for the County's management of the business's property assessment.

Some taxpayers say they already use a similar in-house system. One business owner said she reviews last year's return, adds new items, and removes retired items. She said it would be an improvement if the County sent her a copy of last year's return so she would have something to work from. Another business thought the benefit of electronic filing would be to ensure that records are kept accurately, "to make sure my record matches yours." Currently, business owners submit their tax returns and they receive a tax bill several months later from the County. Business owners indicated they cannot verify that the information on the tax bill is based on the return they submitted.

In addition to monetary savings and increased taxpayer satisfaction from an adds/deletes method where an electronic record of property detail is maintained, there are other advantages:

- There is a higher likelihood of a more accurate personal property tax roll. Determining and entering the depreciation code for every piece of property every year and possibly by a different person increases the risk of coding property differently from one year to the next.

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- Property tax records are set up for auditing better than the current system. Currently, the appraisers who do audits often re-enter property detail on their own.

Multnomah County was using one form of an adds/deletes filing method, but it was discontinued about 12 years ago after a DOR audit. In that system, the County did not maintain property detail electronically, and taxpayers were not sent the prior year's property detail. Taxpayers simply sent in a record of property additions and deletions. DOR auditors found this method unacceptable because the County was using a composite rate instead of specifically identifying and calculating all items of personal property each year using appropriate depreciation tables.

Management has not favored sending property listings

Managers in the County's Property Valuation Division do not favor an adds/deletes system that includes providing the taxpayer with his or her prior year's property listing for three reasons. First, they are concerned that the taxpayer's confidentiality might be breached if the wrong person received the property listing. Second, they are concerned about the additional postage costs involved with mailing property listings to taxpayers. Third, they believe that providing taxpayers with a list of their prior year's property listing could facilitate fraud.

As for the County's concerns about confidentiality, we found that other counties in Oregon as well as DOR send property detail through the mail. Further, we contacted DOR and asked for an opinion on this matter. DOR indicated that if a business has changed ownership without notifying the County, the County is not doing anything unlawful by sending the property detail addressed to the prior owner. Only if the County has clear information or evidence that the owner has changed, does it have an obligation to safeguard the prior owner's property detail.

As far as additional postage costs are concerned, the County has several ways to get the property detail to the taxpayer, all of which are much less expensive than coding and entering every item of property detail every year. The County could choose to mail a paper copy of the property detail to taxpayers, mail the detail on a diskette or CD or, under the right conditions, e-mail the property detail. Property detail could also be available to taxpayers over the internet. A combination of these options could be used.

As for concerns about fraud, many of the businesses we talked to already maintain an electronic copy of their personal property detail. Furthermore, an adds/deletes method provides personal property staff with a tool for noting irregular additions or deletions, and could make it easier and faster to detect fraud. Under the current system, a taxpayer could submit an entirely different tax return one year than was submitted the prior year. Unless the real market value of the new return was determined to be different from the prior year by a predetermined percentage, the fraudulent return would likely not be detected.

Other potential disadvantages of an adds/deletes method and maintaining property detail may be that taxpayers would become complacent and not properly update the property list or that they may not want to add something to the list that they did not report in prior years. We believe that an increased focus on compliance activities should mitigate these risks.

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Taxpayers want greater accountability

Interviews with small to medium-sized businesses confirm that taxpayers would welcome changes in the personal property tax system in Multnomah County, including an adds/deletes method. Businesses would like a system that includes feedback or communication from the County and would like to be able to plan for their taxes due. Among businesses we talked to, many complained that they receive no communication from the County, with comments such as, "It's like sending my return into a black hole," and "It's all one-way." Since taxpayers don't receive detail from the County on property value, they are unclear about how their property is valued.

Larger companies with more property to report and more tax dollars at stake were most likely to tell us that they would like the opportunity to review how their property was valued. For example, the tax manager for one of the four largest personal property taxpayers in the county explained that she would welcome the opportunity to review the personal property inventory that is maintained by the County, as she does for other counties in Oregon. Although it could take a few more hours in additional time to review the prior year's personal property inventory, this would allow her to confirm the County's list of her company's assets and to understand how the County depreciated various items.

Poor planning leads to less efficient change and low morale

The County is aware that processing personal property accounts could be more efficient. It has made some changes in staff assignments and is starting to look into electronic filing. However, the County has no formal plan for proposed changes, and has only minimally involved staff in exploring or implementing the changes, despite a recommendation from the Auditor's Office in 1999 to develop a strategic plan. As a result, staff are demoralized and resistant to change. In addition, the changes that the County has implemented may have "put the cart before the horse" by adding responsibilities without effective planning and involvement of staff.

County has goal of improving how personal property valuation is managed

According to FY 2005-2006 budget documents, the County has a goal of improving how personal property returns are processed. Objectives include exploring electronic filing, increasing coordination between personal and real property valuation, and changing appraiser roles. Earlier this year, the County proposed changing the appraisers' roles to include the review of 5% of the largest personal property accounts each year. At the end of five years, 25% of the largest businesses—comprising about 89% of the assessed value of the County's businesses—will have been reviewed. The appraisers will examine the returns and then audit them if warranted. This review is expected to catch irregular and possibly fraudulent returns and ensure a more accurate tax roll.

Adding these auditing responsibilities to the appraisers means that the appraiser technicians will not only resolve problem returns as they always have, but they will also be responsible for work formerly handled by the appraisers. To compensate for the appraiser technicians' increase in workload, the support staff have also begun to resolve issues with some returns.

As for electronic filing, the Property Valuation Division has also begun investigating the cost of enhancing the central computer system to store personal property detail and to format it so that the detail could be understood by taxpayers.

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Improvement needed in change management

The recent and planned changes are not driven by a strategic plan or any other formally-recognized and shared plan. Our report titled *Property Valuation Division and the Tax Collection and Records Management Division*, February 1999, recommended that the Property Valuation Division develop a strategic plan. At that time, the Property Valuation Division responded that it had hired a consultant to develop a strategic plan and expected it to be finished shortly. However, the plan was never finished. Furthermore, our review of the draft of the plan shows that without substantive changes it would have been minimally helpful, at best, in providing a solid foundation for improving personal property.

We found no evidence that the draft plan reflected an assessment of the actual strengths and weaknesses in personal property valuation. Instead, it provided vague and generic goals, actions, and measurements that could be applied to almost any of the County's functions. Similarly, there is no formal plan or methodology for improving personal property tax administration.

To compound matters, no institutional mechanism for communication is in place for staff to learn about changes, although the number of staff meetings has increased. During our review, we repeatedly found that staff relied on indirect information to learn about why and how personal property administration was changing or about other changes within the office. Almost unanimously, staff told us that they are not well informed about plans for administering personal property taxes, and that they rely on the "grapevine" for information.

In addition, staff said their opinion and expertise are rarely taken into consideration. Although personal property staff were asked what improvements they thought could be made, a number of staff told us that they felt that decisions about change had already been made by management and that nothing they contributed would alter that. Not only does this cause management to miss out on the experience and skill of staff, but staff feel less investment in and understanding of change.

Finally, management appears not to have laid the groundwork for change by building an understanding of the need for change. No apparent analysis of the costs and time spent on processing personal property returns was conducted and shared with staff. Staff did not uniformly understand that making personal property valuation more efficient did not mean that they were doing their jobs poorly.

Although the changes that the Property Valuation Division is attempting could certainly provide advantages, staff have expressed reservations and at times frustration about those changes. The workloads of the appraiser technicians and support staff have grown with no corresponding increase in staff, potentially leading to difficulty certifying the tax roll in a timely and accurate way. Furthermore, some staff are confused about the changes, believing that they were doing their jobs well and uncertain why their responsibilities are changing.

Without staff involvement, a strong line of communication, and a shared understanding of how change will be carried out and its results measured, staff resist change and are suspicious and fearful of the motives behind change.

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Recommendations

1. To reduce costs of processing returns and to capture escaped tax revenue, the Property Valuation Division should:
   a. Begin maintaining an electronic record of property detail.
   b. Implement an adds/deletes method of filing personal property returns.
   c. Put into place electronic processing options that complement the adds/deletes methodology and best fit overall personal property administration objectives.
   d. Intensify efforts to ensure all staff are well trained to effectively perform their duties.
   e. Make certain that industrial real property is identified separately from personal property.
   f. Explore ways to ensure that taxpayers are providing tax return information that is complete, legible, and in full compliance with tax return regulations.
2. The Property Valuation Division should prepare a written plan to guide needed changes. Overall, this plan should address:
   a. The best use of tax processing methods and technology to achieve greater efficiency and to ensure an equitable, accurate, and timely personal property tax roll.
   b. Providing high-quality services and convenience to taxpayers.
   c. Training and morale of all staff involved in personal property taxes.
   d. Monitoring the performance of processing, compliance, and training efforts.
3. Some of the specific tasks that should be addressed by the plan include:
   a. Setting timelines and milestones.
   b. Consideration of using someone outside the organization to lead the development and implementation of the plan.
   c. Documenting the implementation of the plan and supporting the decisions made.
   d. Ensuring adequate communication and involvement of all personal property staff.
   e. Articulating the impact of changes on the roles of all personal property tax staff.
   f. Making sure that all staff involved have sufficient time and resources to carry out their responsibilities.
   g. Researching how other "best practice" jurisdictions administer their personal property taxes and what they did to get there.

h. Involving businesses and getting their feedback.

i. Comparing tax return processing alternatives.

j. Determining the impact of any property tax software upgrades on processing alternatives.

k. Implementing an auditing program for appraisers.

l. Developing a system to track efforts and accomplishments of all compliance activities.

m. Reviewing and updating personal property policy and procedures.

4. Because electronic filing alternatives can be configured in different ways and the County will also need to retain some paper-based capacity, choices made should explain:

a. How property detail is provided to and accepted from taxpayers. Options include mailing paper, diskettes, or CDs, and the use of e-mail or the internet.

b. The security of information. For example, the taxpayer could be allowed to e-mail their returns if they choose. Security of e-mail could be increased through use of a secure internet site or encrypted e-mail.

c. Whether taxpayers or the County enter depreciation codes. Having businesses enter codes for property additions each year is one way that allows them to better understand how their taxes are figured.

d. Alternative methods of electronic filing such as the use of fill-in forms, fill-in programs, or e-filing.

e. Targeting certain taxpayers for particular methods of electronic filing.

f. The extent of processing needed once electronic tax return information is received by the County.

g. Whether a paper or electronic signature is used.

h. Support provided to taxpayers when changes are made.

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Responses to the Audit

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Diane M. Linn, Multnomah County Chair

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Portland, Oregon 97214
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August 5, 2005

Suzanne Flynn
Multnomah County Auditor
501 SE Hawthorne, Room 601
Portland OR 97214

Dear Suzanne,

I have received and reviewed your office's audit of the County's Personal Property Tax program and want to thank you, and especially Lavonne Griffin-Valade, for taking the time to conduct a very important and valuable audit for Multnomah County.

During the past three years, the County's General Fund has been reduced by $61 million. We simply cannot fail to aggressively pursue opportunities to more efficiently capture tax revenue that is already owed. With the County currently collecting $44 million in personal property taxes, and retaining approximately one quarter of this for county operations, this revenue stream must be managed as responsibly as possible.

This audit highlights immediate opportunities for the County to make very significant strides in improving how effectively we collect personal property taxes. As you point out in your summary, not only does this lead to increased revenue to the County, but it also promotes greater equity in our tax system. Specific themes also struck me as essential. We need to continually look for technology, such as electronic filing, to improve productivity; we need to focus on compliance tools that work well for taxpayers; and we need to make initial investments in order to successfully integrate these changes.

I also noted your research indicating the receptiveness of businesses to these efforts, and in particular their interest in having electronic filing options and more streamlined information flows. Changes that increase transparency and ease of use for taxpayers should not be understated.

I am particularly pleased with the contents of this audit. It provides clear steps for Multnomah County to perform our responsibilities more efficiently and equitably. To facilitate coordinated implementation of recommendations contained in your audit, I have asked Dave Boyer, the County's Chief Financial Officer, to work with our Director of Assessment and Taxation to move forward on our efforts.

I look forward to continued cooperation with County staff and your office on behalf of the citizens of our jurisdiction. Thank you again for your very important work.

Sincerely,

Diane Linn
Multnomah County Chair

cc: Board of County Commissioners
Bob Ellis, Assessor
Kathy Tuneberg, Director, Assessment and Taxation
Dave Boyer, CFO

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M U L T N O M A H   C O U N T Y   O R E G O N

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August 04, 2005

Suzanne Flynn, Auditor
Multnomah County
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Portland, OR 97214

Dear Ms. Flynn:

The Department of County Management and the Assessment and Taxation Division appreciate the time that you and your staff have invested in a review of the Personal Property appraisal section. Thank you for the opportunity to comment on your findings and recommendations.

BACKGROUND INFORMATION:

We feel that some background information will be useful to the reader of this report and to provide a framework for our response.

Historically Personal Property has been a very labor and paper intensive portion of our mandated appraisal activity. Although it represents less than 6% of the total assessed value it accounts for 18% of the 320,591 total active accounts. The amount of paper received annually with the returns fills more than eight four drawer filing cabinets.

Over the years the legislature has eroded the personal property tax base through a variety of exemptions. Farm animals, farm machinery and equipment, cargo containers, beverage containers and all business inventory were at one time taxable. Beginning in 1979, any business with less than $1,000 in market value of personal property within a county was not taxed. By 1997 that threshold increased to $10,000 and now for 2004 it stands at $13,000. Even though these businesses end up with no tax liability, Oregon law still requires that the Assessor mail each one an annual personal property filing form and each business is expected to file indicating any changes in their personal property holdings.

Ballot Measure 50 (M50) which was first effective for 1997, brought significant budget reductions to A & T. The total appraisal staff decreased from 88 to 68. Since that time, in addition to changing procedures required by M50, we have also converted to A & T specific software that is Y2K compliant and completely eliminated usage of the County mainframe computers in support of a county-wide IT goal. The staff had a very steep learning curve to maximize efficiencies possible with the appraisal software while at the same time implementing the M50 requirements. Under M50, new construction adds value to the tax base beyond the annual 3% increase in Maximum Assessed Value. On average each real property appraiser adds over $69 million dollars of new market value to the tax roll each year which generates over $800,000 in tax revenue. This value stays on the roll and increases by 3% each year.

In contrast to real property, the personal property values must be completely recalculated each year. There is high turnover with about 20% of the accounts being replaced by new businesses each year. The property depreciates therefore the business community must add sufficient new property to offset the depreciation for us to collect the same amount of taxes as in the prior year. In 1997, the first year of M50, Personal Property accounted for 6.3 % of the taxable value in the county. By 2003 it represented 5.4% and for 2004 it has dropped to 4.8%.

In light of these statistics, M50 tax limitations, and budget constraints, A & T management has focused on the annual appraisal of all real properties that we are aware had new construction in order to keep these values current, while maintaining the personal property activity at a level which meets statutory requirements.

In a 1986 report to the Commissioners this office noted that personal property represented 5.8% of the total tax levy but consumed 18% of the total budget resources for A & T. In 2003, our records show that personal property represented 5.4% of the tax levied[1] and as reported in this audit document utilized 14% of the budget.

Prior to the commencement of the audit, the individual who had supervised the personal property section retired and one of the commercial supervisors assumed his duties. The current goal of this unit is to apply some of the computerization and efficiencies developed for real property appraisal to the personal property processes.

From this perspective we appreciate your recommendations for ways to improve the outcomes that we expect to achieve over the next two years. We are also very interested in efficiencies that will lead to either better accuracy or budget savings.

RECENT EFFORTS:

Significant improvements were initiated by the personal property staff several months ago. We believe that it is important to recognize the contributions of the personal property employees.

They have:

- Increased the percentage of time appraisers spend performing audits of larger businesses. During 2005 over $68 million in Real Market Value (RMV) has been added to the assessment roll.
- Assigned support staff to take responsibility for non-value related changes to business accounts resulting in approximately 20% fewer problem accounts being referred to appraisers and technicians.
- Over the past two years they have performed a field check of business ownership for every street in the County with more than 50 locations on it. During the 2005 listing period they added 1,925 new businesses with a total RMV of $24,900,000.
- Adopted the real property procedures for handling Board Of Property Tax Appeals. All petitions were processed through a database and the initial time devoted to each appeal was limited. The total time staff spent on appeals was reduced and as a result, where in previous years we had all six appraisers and appraiser techs working on appeals, we finished our 2005 appeals with time to spare and only had the three appraisers working on them

[1] The auditors graph on page three rounds the 5.4% personal property portion of the assessment roll to 6%.

RESPONSE TO AUDIT RECOMMENDATIONS:

The first recommendation deals with reducing costs of processing returns and capturing escaped tax revenue. It calls for an electronic record of property detail and implementing an adds/deletes approach.

We have developed a prototype electronic filing option for selected businesses to use in filing their 2006 returns. Filers will be able to electronically submit their backup listings of all personal property assets through a secured website. They will still be required to file a signed hard copy of their return. We will provide a spreadsheet template for them to format the information. The information will be processed in a database and the resulting summarization will be uploaded into the central computer system without any need for data input. The listings will require depreciation coding the first year, but the system will retain that coding for future years. The database will allow for comparison from year to year to show the additions and deletions a company may be making.

In selecting this approach we suggest that the determination of whether and when to utilize an adds/deletes approach is more complex than a simple review of processes in smaller Oregon Counties. There is a huge range of business size within Multnomah County. There are those with no computers and those with sophisticated systems. Small businesses fill out their returns in pencil, medium sized firms employ independent accountants, and large firms use their own accounting staff.

Our analysis to date indicates that there are three approaches that businesses may use in making their annual filing. These are (1) a complete listing of all personal property assets, which many companies with computers are better prepared to do. (2) adds/deletes; a complete listing for the first year in the county and subsequent years a report listing only new or deleted assets. (3) self assessment; although not discussed in the audit report, many companies obtain the depreciation schedule from the Dept. of Revenue web site and calculate their own market values. If we accept their return as properly valued this option provides the greatest reduction in processing cost for the County. 55 of the 100 largest personal property accounts self calculated their market values on their 2004 filings. Many of these firms, such as banks and grocery stores, had as many as 9 or 10 other locations and also filed self-calculated returns for each one.

When using any of the three methods of filing returns, the information can be submitted either as a hard copy on paper or in an electronic format. For some businesses a paper return may be preferable while others would prefer to save the paper and submit the listing of property in an electronic format. Current law still requires a signed paper filing; however the detail of individual assets can be submitted as an attachment in an electronic medium.

As mentioned in the audit report, other counties and states are experimenting with electronic means of receiving information and several are ahead of this office in developing new procedures. Without new procedures, gathering the data electronically will not improve our efficiency or accuracy but would cut down on paper storage and would be expected to improve valuation consistency.

Using a computer to compare electronic filing data from year to year whether as a complete listing, an adds/deletes method or a self assessment method would help in audits and in compliance checks. We may enter all the data ourselves from the paper returns or from electronic submissions by the companies who file. However, we must have procedures to efficiently process the electronic data. Ideas presented describe e-mailing data in and out, or creating and mailing CD's.

Any kind of an e-filing program must be coupled with an efficient system for handling the data once it is received in order to insure that we achieve the desired efficiencies without an increase in cost. It is worth noting that in the last paragraph on page nine of the audit report it is pointed out that processing returns for leased property is especially expensive. A portion of the cost of processing these returns is due to having already adopted several of the auditor's recommendations for this group of property including using additions/deletions, retaining an asset-level detail on the computer system from year-to-year and sending asset lists back to the taxpayers.

We agree with the recommendation to intensify efforts to ensure staff is well trained to effectively perform their duties. All of the appraisers and supervisors have met or exceeded their annual training requirements however some of the clerical support staff have received little supplemental training. Under the current supervision we have staff meetings more frequently and have increased the attendance in educational opportunities provided by the Department of Revenue.

We find it difficult to respond to the request that we make certain that industrial real property is identified separately from personal property in that no specific examples were provided. The Department of Revenue is responsible for appraising most Industrial properties that exceed one million dollars in improvement value as well as the associated personal property. All filings and records relating to these accounts are retained in their files. The values for these properties are transmitted to our office and staff enters them into the Assessment Roll.

We are always interested in exploring ways to ensure that taxpayers[2] provide complete tax return information that is in compliance with Oregon law. This is an example of 20% of the group causing 80% of the work. Multnomah County was instrumental in achieving a legislative change two sessions ago which increased the penalties for late filing. In spite of this incentive, in each of the past three years more than 3,800 filings were made after the due date and on average over 400 refused or failed to file at all[3]. Because of the number of businesses in the County there is more work than can be completed in an annual cycle by the existing staff. However in the current economic straits in which we find ourselves, we believe that we owe it to the taxpayers to focus our resources on those areas which produce the greatest return. Consequently, for many companies that file incomplete returns, we base their value on prior years filings or the best information available at the time. If staff spends more time auditing the larger valued incomplete returns for compliance we may discover methods to encourage greater responsiveness.

The second and third recommendations focus on the preparation of a written plan to guide needed changes in the personal property section. We agree that planning is an important component in the successful implementation of new procedures. We agree with the items mentioned that the plan should address and the specific tasks that are itemized. We will include a request in our next budget for funding of these recommendations.

The fourth recommendation is also a subset of the written plan which details specific areas relating to electronic filing alternatives that may require additional consideration. E-filing and electronic alternatives are still in the infancy stage of development. Many jurisdictions surveyed in this report have only recently embarked on this course and it appears that much of the development has been at the state level. The Personal Property Tech group composed of Dept. of Revenue and state-wide county representatives noted in its Jan. 21, 2004 minutes that there was a request to begin developing guidelines to implement electronic filing and it stated that the Department would assist in developing procedures for filing on disks. We will continue to pursue the use of e-filings as much as our resources allow and to the extent sanctioned by the Dept. of Revenue.

[2] And those businesses which are exempt due to values being below the $13,000 threshold, but must file.
[3] These numbers do not include filings that fall below the $13,000 cancellation threshold.

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We have explored using bar codes on personal property returns to eliminate the data entry coding to indicate a return has been received. In recent years we have made repeated attempts to utilize scanning technology to move numbers from paper returns into electronic spread sheets however the accuracy of the results is not acceptable.

E-mail is suggested several times as being an alternative currently available and underutilized, however our experience reveals that this technology has its shortcomings. With the current e-mail exchange administration and firewall configuration in use by the County we have concluded that there is insufficient reliability to accept filings from businesses or to attempt to return files to them by this means. Many documents with large attachments and small ones with unknown words are stopped at the firewall with no notice provided to either the sender or the intended recipient of the non delivery. During the last annual tax rate calculation period staff found it necessary to notify the counties with joint tax districts every time we sent them e-mails containing the needed values. Similar problems have occurred when attempting to exchange data with businesses. Until our County-wide system is able to overcome this issue the only recourse known to us is to set up individual registrations for each business that desires to make an electronic filing through a secure FTP site. In addition, the Department of Revenue has cautioned all the counties as recently as July 2003 and again in December 2004 to obtain written authorization from the taxpayer before transferring data via E-mail due to the data being confidential.

The Software Group which sells and supports the Assessment and Taxation software that we use[4] has developed a new web based version that allows easier customization for electronic filing options such as those suggested in the audit report. Marion County is currently converting to this product however our request in the current budget for funding for this software was not accepted.

We do everything that we can to insure that the accuracy of tax bills is maintained and to not erode the taxpayers confidence in them. There may be a need for legislation to enable electronic signatures and to allow electronic filings to be accepted as archival quality in order to meet legal retention requirements. We recognize that due to the rapidly changing world of e-commerce that some of these alternatives may not be viable today but will be tomorrow and we will consider these items in our plan.

Again, thank you for the work of your Audit team. We will work with our department management to move forward on your recommendations as our resources allow.

Sincerely,

Robert L. Ellis
Assessor (retired)

Kathleen A. Tuneberg
Director A & T

c. Diane Linn, Chair
Dave Boyer, CFO

[4] We are one of nine Oregon Counties that share in the cost of this software.