



Office of the City Auditor



**City and County of
Honolulu
State of Hawai`i**

**Report to the Mayor
and the
City Council of Honolulu**

**Follow-Up on
Recommendations from
Report No. 13-02,
*Audit of the
Real Property
Assessment Division***

**Report No. 19-07
December 2019**

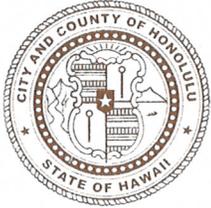
**Follow-Up on Recommendations
from Report No. 13-02, *Audit of
the Real Property Assessment
Division***

A Report to the
Mayor
and the
City Council
of Honolulu

Submitted by

THE CITY AUDITOR
CITY AND COUNTY
OF HONOLULU
STATE OF HAWAII

Report No. 19-07
December 2019



OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

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TROY SHIMASAKI
ACTING CITY AUDITOR

December 30, 2019

The Honorable J. Ikaika Anderson, Chair
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawai`i 96813

Dear Chair Anderson and Councilmembers:

A copy of our report, *Follow-Up on Recommendations from Report No. 13-02, Audit of the Real Property Assessment Division*, is attached. This audit was initiated by the Office of the City Auditor pursuant to Section 3-502.1(d) of the Revised Charter of Honolulu which requires the city auditor to conduct follow-up audits and monitoring of compliance with audit recommendations. The audit was also included in the City Auditor's Annual Work Plan for FY 2019-20. The audit objective was to determine whether the Department of Budget and Fiscal Services has adequately addressed open audit recommendations with appropriate corrective actions.

The *Audit of the Real Property Assessment Division* (Report 13-02, Issued October 2013), was conducted pursuant to Council Resolution 10-269, which requested the city auditor to conduct a performance audit of the Department of Budget and Fiscal Services' Real Property Assessment Division (RPAD). The audit objective was to evaluate the RPAD processes related to the classification, reclassification, valuation, and assessment of real property for taxation purposes. At the time, we found that real properties were inconsistently classified because tax assessment staff were not following best practices such as performing physical inspections, focusing on quality assurance, maintaining and updating databases, or complying with existing administrative policies and procedures. As a result, tax assessments were inconsistent and inequitable, exemption and dedication property requirements were violated, and taxes assessed did not reflect the highest and best use of the properties. The audit also identified deficiencies including potential illegal or unpermitted commercial use of residential historic properties, inaccurate and unreliable data, tax assessment errors, and data management shortcomings. The original audit made 17 recommendations.

In this follow-up audit, we found that five recommendations were *completed*, seven were *in process*, four were *not started*, and one was *dropped*.

In response to a draft of this follow-up audit, the managing director expressed general agreement with 11 of the audit recommendation status assessments and disagreed with 6 status updates. We reviewed management's comments and in one instance agreed with their evaluation regarding the department's increased utilization of *iasWorld* software. In its response, the department also disagreed with our recommendation to properly classify, value, prorate, and assess real properties used as adult residential care homes, skilled nursing or intermediate care facilities, and related properties. The department also stated that it completed the recommendation to cancel historic property dedication

The Honorable J. Ikaika Anderson, Chair
and Members
December 30, 2019
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exemptions for properties with commercial activities without a residential use permit because the residential dedication ordinance does not preclude commercial activities and owners from conducting commercial activities. In both of these instances, we acknowledge that land use review and permitting are functions of the Department of Planning and Permitting. What we recommend is that the Real Property Assessment Division include timely and accurate land use and permitting information to justify classifications or exemptions, and record legally permitted uses when appropriate. By recording accurate information, the division can ensure that properties are accurately classified for taxation. In all other instances, we stand by our audit recommendation status assessments. We also made technical, non-substantive amendments for purposes of accuracy, clarity, and style.

We would like to express our sincere appreciation for the cooperation and assistance provided us by the managers and staff of the Department of Budget and Fiscal Services and the Real Property Assessment Division. We are available to meet with you and your staff to discuss this report and to provide more information. If you have any questions, please call me at 768-3134.

Sincerely,



Troy Shimasaki
Acting City Auditor

c: Kirk Caldwell, Mayor
Roy K. Amemiya, Jr., Managing Director
Nelson H. Koyanagi, Jr., Director, Department of Budget and Fiscal Services

Follow-Up on Recommendations from Report No. 13-02, *Audit of the Real Property Assessment Division*

December 2019

Background

The *Audit of the Real Property Assessment Division* (Report 13-02, Issued October 2013), was conducted pursuant to Council Resolution 10-269, which requested the city auditor to conduct a performance audit of the Department of Budget and Fiscal Services' Real Property Assessment Division. The audit objective was to evaluate the RPAD processes related to the classification, reclassification, valuation, and assessment of real property for taxation purposes. The audit was performed in accordance with generally accepted government auditing standards from June 2012 to September 2013. In Report 13-02, the sample results indicated real properties were inconsistently classified because tax assessment staff were not following best practices such as performing physical inspections, focusing on quality assurance, maintaining and updating databases, or complying with existing administrative policies and procedures. As a result, tax assessments were inconsistent and inequitable, exemption and dedication property requirements were violated, and taxes assessed did not reflect the highest and best use of the properties.

RPAD attempted to resolve classification problems concerning residential class properties in mixed use zones by reclassifying them to the higher *commercial* or *industrial* class for tax year 2010-2011. The substantial increase in property taxes generated property owner complaints and appeals to the city council, and the city council subsequently passed Resolutions 10-260 and 11-105 that authorized tax adjustments and other actions to resolve problems created when properties were reclassified. Our analysis indicated that problems have not been resolved because the real property data listed in the resolutions were not accurate, reliable, or complete.

The city provides a property tax exemption for historic residential properties that usually reduces property taxes from a full assessment to the minimum of \$300 per year. City ordinances and rules impose specific requirements for property owners to obtain and retain the tax benefits of the historic residential dedication. Our sample results identified many violations and non-compliance with historical residential property dedication requirements. The violations were not corrected because RPAD did not actively monitor and enforce compliance with the historic property dedication requirements; conduct inspections of the properties; or maintain current or accurate information on the properties. Based on our sample, in tax year 2011-2012, we estimate the city could have increased tax revenues by over \$555,000 if RPAD had monitored and enforced historic property dedication requirements and cancelled the historic property exemptions for non-compliant properties.

The audit found other deficiencies including potential illegal or unpermitted commercial use of residential historic properties, inaccurate and unreliable data, tax assessment errors, and data management shortcomings. We recommend that the real property assessment staff take action to ensure property owners comply with the historic property requirements and to prevent abuses of the historic property dedication. The sample results showed many inconsistencies and inaccuracies in classifications, tax assessments, and real property tax payments because real property tax

assessment staff were not following best practices. As a result, potential tax revenues totaling over \$1.8 million were not assessed or collected.

The Audit of the City's Real Property Assessment Division (RPAD) made 17 recommendations to the Managing Director and Department of Budget and Fiscal Services.

Since the original report was issued in 2013, our office has periodically monitored the status of the report's recommendation by requesting BFS to report on the status of the audit recommendations. In our FY 2014 and FY 2017 status recommendation reports, BFS had not-started any of the 17 recommendations. Based on this and the period of time that has transpired since the audit was completed, we determined that a follow-up audit should be performed to verify that status of the outstanding recommendations.

The 17 outstanding recommendations included in this follow-up audit are:

1. *Develop and enforce policies and procedures that conform to professional standards and best practices. The written policies and procedures should:*
 - (a) *require the use of uniform methods and techniques to classify, value, and assess real properties;*
 - (b) *ensure properties are assigned and classified based on the highest and best use and/or the current use;*
 - (c) *ensure mixed use real properties are properly classified, valued, prorated, and assessed; and*
 - (d) *properly classify, value, prorate, and assess real properties used as adult residential care homes, skilled nursing/intermediate care facilities, and other mixed used properties;*
2. *Make recommendations to city council to introduce ordinances that allow tax assessments, exemptions, and real property taxes to be prorated according to the actual use of the properties;*
3. *Communicate information or violations to the Department of Planning and Permitting (DPP) and work with DPP to resolve land classification and violation issues;*
4. *Complete the processing and documentation of real properties granted tax adjustments or tax compromises under Resolutions 10-260 and 11-105;*
5. *Develop an accurate and reliable list of properties affected by its reclassifications of real properties and reverse any tax adjustments or tax compromises that were granted to nonqualified real property owners under the auspices of Resolution 10-206 and 11-105;*
6. *Correct and collect all tax property assessments due from unqualified real property owners who were granted tax adjustments or tax compromises under the Resolutions 10-260 and 11-105;*
7. *Enforce written rules for historic property dedication exemptions and cancel the historic residence exemptions for property owners who are not complying with the historic residence requirements;*

8. *Require non-compliant property owners to pay the full real property taxes and penalties as detailed in Chapter 8 of the Revised Ordinances of Honolulu and the Budget and Fiscal Services Historic Property Dedication Rules;*
9. *Cancel the historic property dedication exemptions for properties with commercial activities on residential properties without a conditional use permit;*
10. *Ensure the accuracy and reliability of the real property tax assessment data by including historic residential and commercial properties in the RPAD data quality assurance program;*
11. *Include in the data quality assurance program best practices including physical property inspections, alternative inspection techniques, verifications of valuation and appraisal results, and compliance with historic property dedication requirements;*
12. *Rely more on information systems, such as iasWorld, for mass appraisals, real property assessments, and to streamline the existing, complex, manual process for classifying and assessing real properties;*
13. *Use the iasWorld system capabilities to determine property values and perform appraisals and assessments of real properties, and use manual processes and State of Hawai'i data as a double check of the iasWorld results;*
14. *Develop a data quality assurance program that periodically and regularly verifies that iasWorld data are current, complete, updated, accurate, and reliable;*
15. *Develop and implement a data quality assurance program as recommended by professional standards and best practices to ensure real property tax assessment data is accurate, reliable, complete, updated, and current. The quality assurance program should include:*
 - (a) *statistical sampling, projection techniques, and risk assessments;*
 - (b) *prioritization of properties that are likely to be noncompliant with classification or zoning requirements;*
 - (c) *identification of high risk properties that may have inaccurate or unreliable data;*
 - (d) *property inspections, alternative inspection techniques, and verifications of valuation and appraisal results; and*
 - (e) *assurances that quality assurance results, staff inputs, and other real property results are linked to iasWorld information systems and captured in the iasWorld database;*
16. *Develop and enforce written policies and procedures for:*
 - (a) *appraising and valuing properties so that uniform, consistent, accurate, and reliable results are obtained;*

- (b) requiring continuous communications and coordination with the Department of Planning and Permitting on issues such as tax assessment efforts, inspection results, valuations and appraisals, violations, and enforcement actions;
- (c) ensuring uniform methods and techniques are used to value and appraise similar real properties in different zones or dissimilar properties in the same zone;
- (d) ensuring kuleana land exemptions and benefits are only granted to qualified owners of real properties; and
- (e) ensuring kuleana land exemptions are fully documented and granted only after all legal requirements are satisfied in accordance with Chapter 8 of the Revised Ordinances of Honolulu; and

17. Remove exemptions for real properties that are misclassified or not complying with permitted uses for the assigned zoning or classification.

Follow-Up Audit Results

 Completed 5	 Resolved --	 In Process 7	 Not Started 4	 Dropped 1
Agency has fully implemented the audit recommendation.	Although agency did not implement the audit recommendation, it implemented an alternative solution that fully addressed the applicable audit finding or risk.	Agency started or has partially implemented the audit recommendation.	Agency has not begun implementation of the recommendation.	Agency has no plan to implement the recommendation; the risk associated with the recommendation no longer exists, or is no longer applicable.

The following details the audit recommendations made and the status of each recommendation based on our review.

Recommendation 1



Develop and enforce policies and procedures that conform to professional standards and best practices. The written policies and procedures should:

- (a) require the use of uniform methods and techniques to classify, value, and assess real properties;
- (b) ensure properties are assigned and classified based on the highest and best use and/or the current use;

- (c) **ensure mixed use real properties are properly classified, valued, prorated, and assessed; and**
- (d) **properly classify, value, prorate, and assess real properties used as adult residential care homes, skilled nursing/intermediate care facilities, and other mixed used properties;**

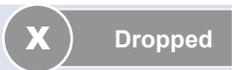
STATUS UPDATE:

(a) The Property Technical Branch (PTO) runs a Ratio Study batch job (CA113) to determine the level and quality of assessments produced by the Assessment Branch. The primary purpose of this Ratio Study Report is to determine whether RPAD is in compliance with the ordinance and with International Association of Assessing Officers (IAAO) performance standards. We reviewed the report and other statistical measures that includes coefficient of dispersion (a standard statistical measure of uniformity or variability that measures the average percentage deviation of the ratios from the median ratio) and price related differential (a statistical measure of vertical equity or assessment uniformity). However, we determined that the report is the only study that management and staff utilizes to classify, value, and assess real property. We found that using the values from the report on the real properties for the tax assessments resulted in deficiencies. We recommend that management apply different approach methods to ensure that properties are being accurately classified, valued, and assessed.

(b-c) Management previously consulted with Corporation Council on the legality of creating multi-land classifications for multiple uses occurring in cooperative apartment, building, and other structure types, excluding condominium projects. In response, Corporation Council stated that each legally constituted lot or parcel of land is to be classified upon its highest and best use. The opinion further stated that the land is subject to uniform land use restrictions throughout the acreage in the lot or parcel, and the land can have but one highest and best use. Therefore, a property cannot have multiple classes based on actual use. We found that management adheres to the highest and best use of classifying properties.

(d) Based on our previous audit, we pointed out that there are inconsistent classifications of nursing and care facilities that resulted in questionable assessments. Of the 31 samples reviewed, these facilities were not classified consistently. According to management, the division maintains that its classifications of existing nursing facilities for elderly and special needs are correct, does not need re-classifying, and did not take action to address the inconsistencies. We continue to recommend that management reexamine the classifications on nursing facilities because property owners may be paying less or more property taxes based on actual classification.

Recommendation 2



Make recommendations to city council to introduce ordinances that allow tax assessments, exemptions, and real property taxes to be prorated according to the actual use of the properties;

STATUS UPDATE

Management previously consulted with Corporation Council on the legality of creating multi-land classifications for multiple uses occurring in cooperative apartment, building, and other structure

types, excluding condominium projects. In response, Corporation Council stated that each legally constituted lot or parcel of land is to be classified upon its highest and best use. The opinion further stated that the land is subject to uniform land use restrictions throughout the acreage in the lot or parcel, and the land can have but one highest and best use. Therefore, a property cannot have multiple classes based on actual use. We found that management adheres to the highest and best use of classifying properties, and under the highest and best use principal this recommendation cannot be implemented and therefore we will drop this recommendation.

Recommendation 3



Completed

Communicate information or violations to the Department of Planning and Permitting (DPP) and work with DPP to resolve land classification and violation issues;

STATUS UPDATE

The original audit found that RPAD inquiries to DPP regarding violations were informal, undocumented, and could not be tracked to ensure that DPP pursued resolution for any violations. We found that RPAD management and staff now submit Requests for Investigations (RFIs) reports to Department of Planning and Permitting for building code violations. However there continues to be reliance on email and the telephone to resolve land use issues since the Department of Planning and Permitting does not have staff assigned to geographic areas. We verified that management is working with the Department of Planning and Permitting on this process. We reviewed seven samples of Current Requests for Investigations (RFIs) building code violations submitted to Department of Planning and Permitting. From the samples, most of the discrepancies noted were based on renovations, added units to the dwellings, and unpermitted work. We also reviewed samples of email correspondence regarding land issues. We concluded that the discussion took sufficient action to address this recommendation.

Recommendation 4



Not Started

Complete the processing and documentation of real properties granted tax adjustments or tax compromises under Resolutions 10-260 and 11-105;

STATUS UPDATE

For tax year 2010-2011, RPAD attempted to resolve classification problems concerning residential class properties in mixed use zones by reclassifying them to the commercial or industrial class. The substantial increase in property taxes generated many property owner complaints and appeals to the city council. The city council passed Resolutions 10-260 and 11-105 that authorized tax adjustments and attempted to resolve problems created when properties were reclassified from residential to commercial or industrial classifications. Our original audit found that properties listed in the resolution indicated the problems have not been resolved because the real property data listed in the resolutions were not accurate, reliable, or complete. According to management, the division stands by its previous statements that no refunds were made in error and all compromises were made in accordance with the exhibits in the resolutions. Management confirmed that the division will not adjust any assessments or initiate corrective actions to collect under the Resolutions 10-260 and 11-105. We requested samples of recent tax compromises for review.

However, management could not provide samples because there were no new resolutions adopted for corrective actions. We believe the properties listed in Resolution 10-260 and 11-105 remain unresolved and property owners may be benefiting from the tax compromise and adjustments.

Recommendation 5



Develop an accurate and reliable list of properties affected by its reclassifications of real properties and reverse any tax adjustments or tax compromises that were granted to nonqualified real property owners under the auspices of Resolution 10-206 and 11-105;

STATUS UPDATE

Please refer to our comments in recommendation #4 for explanation.

Recommendation 6



Correct and collect all tax property assessments due from unqualified real property owners who were granted tax adjustments or tax compromises under the Resolutions 10-260 and 11-105;

STATUS UPDATE

Please refer to our comments in recommendation #4 for explanation.

Recommendation 7



Enforce written rules for historic property dedication exemptions and cancel the historic residence exemptions for property owners who are not complying with the historic residence requirements;

STATUS UPDATE

In our original audit, we identified many violations of and non-compliance with historic residential property dedication requirements. At that time, the violations were not corrected because RPAD did not actively monitor and enforce compliance with the historic property dedication requirements; conduct inspections of the properties; and maintain current or accurate information on the properties. We reviewed the historical tax exemption properties process and conducted interviews with staff responsible for that process. We reviewed the recent historic residential dedication list and sample copies of assessment notices if a property has qualified for a dedication. We also verified that staff reviewed documentation. According to staff, when a property is not in compliance, notes are entered into iasWorld and appropriate letters are generated and mailed. We confirmed that staff regularly inspects historic residences. We further reviewed sample notice sent to residences who were not in compliance including cancelled exemption notices.

Recommendation 8



Completed

Require non-compliant property owners to pay the full real property taxes and penalties as detailed in Chapter 8 of the Revised Ordinances of Honolulu and the Budget and Fiscal Services Historic Property Dedication Rules;

STATUS UPDATE

If a property is found to be non-compliant, appropriate actions are taken in accordance with Section 8-10.22 of the Revised Ordinances of Honolulu and Subtitle 5 Real Property Assessment Rules, Chapter 32 Historic Residential Property Dedication Rules. We reviewed the process for establishing a property owner as non-compliant up to, and including cancelling the historic property status. According to staff, if a property is found to be non-compliant, a notice will be sent to the homeowner and a deadline imposed to correct the deficiency. We reviewed the historical properties non-compliance list and samples of historic residential dedication exemption notifications of non-compliances, including 60 days right to cure letters sent out to homeowners. We also reviewed recorded deficiencies related to property owners' failure to provide alternative visual access to the public from a viewing point on the property and the lack of approved view point. We verified that non-compliant property owners are being billed for their outstanding property tax obligations and new assessments. We confirmed that a total of 4 historic residential properties were cancelled this past two years.

Recommendation 9



Not Started

Cancel the historic property dedication exemptions for properties with commercial activities on residential properties without a conditional use permit;

STATUS UPDATE

From our prior audit report, we identified historic dedication properties that were associated with commercial and potential non-residential activities. This allowed some historic residential property owners to avoid the full tax assessment that a commercial business should have paid. We found that staff did not consult with the Department of Planning and Permitting about commercial or legally-permitted use issues. According to RPAD, the division is not aware of Department of Planning and Permitting citing any properties in this program for illegal activities, nor does management have regular contact with the department regarding citations for illegal commercial activities. Due to this lack of communication and coordination, we determined that management has not made sufficient effort to work with the Department of Planning and Permitting on the potential commercial activities at historic exemption properties areas. We believe ongoing abuse of property tax exemption may still exist.

Recommendation 10



Completed

Ensure the accuracy and reliability of the real property tax assessment data by including historic residential and commercial properties in the RPAD data quality assurance program;

STATUS UPDATE

Please refer to our comments in recommendation #7 and #11 for explanation.

Recommendation 11



Include in the data quality assurance program best practices including physical property inspections, alternative inspection techniques, verifications of valuation and appraisal results, and compliance with historic property dedication requirements;

STATUS UPDATE

In our original audit, we found that a data quality assurance program does not exist. According to RPAD management, the division does not have the resources to implement a regular physical inspection program every 4 to 6 years. Rather, the department relies on the Pictometry tool in the iasWorld system for desktop review and appraisal results. We conducted a visual survey of a sample property using the Pictometry process and found that we are able to see different views of the property and discern features needed to evaluate properties for compliance purposes. We were advised by management that the Pictometry tools updates approximately every 5 years. We also confirmed that historic properties are inspected for compliance and valuation.

Recommendation 12



Rely more on information systems, such as iasWorld, for mass appraisals, real property assessments, and to streamline the existing, complex, manual process for classifying and assessing real properties;

STATUS UPDATE

Management already relies on the iasWorld software to maintain and assess every property in the database and the ratio study report for the mass appraisals program. According to management, data entry continues to rely on a manual process. Staff confirmed that branch personnel use different systems created by different software vendors for external sources of information. We recommend that management continue to evaluate and streamline the process to effectively manage the data and reduce errors in the classifications and assessments.

Recommendation 13



Use the iasWorld system capabilities to determine property values and perform appraisals and assessments of real properties, and use manual processes and State of Hawai'i data as a double check of the iasWorld results;

STATUS UPDATE

Management relies solely on the iasWorld software database to assess properties. The ratio study report is the only quality control we identified and is limited to the mass appraisal program, which determines property appraisal levels and equity. Based on our review, the report focuses narrowly on the validity and reasonableness of property assessments when compared to the market value or

cost approach. It does not focus on the accuracy and reliability of iasWorld data. We recommend that management develop stronger quality control processes.

Recommendation 14



Develop a data quality assurance program that periodically and regularly verifies that iasWorld data are current, complete, updated, accurate, and reliable;

STATUS UPDATE

Similar to our comments in recommendation #13, we recommend RPAD take action on building stronger quality control process.

Recommendation 15



Develop and implement a data quality assurance program as recommended by professional standards and best practices to ensure real property tax assessment data is accurate, reliable, complete, updated, and current. The quality assurance program should include:

- (a) **statistical sampling, projection techniques, and risk assessments;**
- (b) **prioritization of properties that are likely to be noncompliant with classification or zoning requirements;**
- (c) **identification of high risk properties that may have inaccurate or unreliable data;**
- (d) **property inspections, alternative inspection techniques, and verifications of valuation and appraisal results; and**
- (e) **assurances that quality assurance results, staff inputs, and other real property results are linked to iasWorld information systems and captured in the iasWorld database;**

STATUS UPDATE

(a-c) Similar to our comments in #13 recommendations, the ratio study report determines the level and quality of assessments. According to RPAD, the ratio study report is run throughout the valuation process to ensure proper appraisal levels and equity, and that all benchmarks and residential market models are approved by supervisors prior to finalization. However, we found that the report does not focus on the accuracy and reliability of the data in the *iasWorld* software. Properties remain high risk because of potentially inaccurate or unreliable data. We recommend RPAD to design a quality assurance program to ensure that assessments data is accurate, reliable, completed, updated and current.

(d) Please refer to our comments in #11 recommendation for explanation.

(e) Please refer to our comments in #12 recommendation for explanation.

Recommendation 16

In Process

Develop and enforce written policies and procedures for:

- (a) **appraising and valuing properties so that uniform, consistent, accurate, and reliable results are obtained;**
- (b) **requiring continuous communications and coordination with the Department of Planning and Permitting on issues such as tax assessment efforts, inspection results, valuations and appraisals, violations, and enforcement actions;**
- (c) **ensuring uniform methods and techniques are used to value and appraise similar real properties in different zones or dissimilar properties in the same zone;**
- (d) **ensuring kuleana land exemptions and benefits are only granted to qualified owners of real properties; and**
- (e) **ensuring kuleana land exemptions are fully documented and granted only after all legal requirements are satisfied in accordance with Chapter 8 of the Revised Ordinances of Honolulu; and**

STATUS UPDATE

(a) Please see our comments in #1a for explanation.

(b) Management receives weekly updates from the Department of Planning Permitting regarding building permit information on the issuance, completion percentage, and completion date. We reviewed samples of weekly updates and confirm that the Department of Planning and Permitting updates data on completion. We also reviewed information on new building permits and applicable data.

(c) Please see our comments in #1a for explanation.

(d-e) Management adheres to ordinance Section 8-10.32 Exemption—Kuleana land and that the exemption is solely reliant upon certification by Office of Hawaiian Affairs. According to management, in 2013, there was an attempt to contact individuals with missing IDs. We confirmed that ancestry and genealogy verification requests can be accomplished through the Office of Hawaiian Affairs.

Recommendation 17

In Process

Remove exemptions for real properties that are misclassified or not complying with permitted uses for the assigned zoning or classification.**STATUS UPDATE**

Similar to our comments in recommendation #3, management and staff submit reports to Department of Planning and Permitting if a real property is suspected to be operating without a

required permit. The Department of Planning and Permitting conducts all investigation and takes appropriate action. We reviewed a sample of investigations reports and email correspondence to the Department of Planning and Permitting. Although DPP is taking action on misclassified properties, we found that RPAD management does not follow-up on the outcomes of these investigations or incorporates that information with its tax classification database. We recommend management coordinate with the Department of Planning and Permitting to address this recommendation.

Appendix A

Audit Objectives, Scope, and Methodology

The objective of the follow-up audit is to determine whether the Real Property Assessment Division has adequately addressed its open recommendations with corrective actions.

For each recommendation, we indicate whether the recommendation is completed, resolved, in-process, not-started or dropped. We reviewed the original audit and the available supporting documentation, interviewed management and staff, and requested supporting documentation to substantiate information provided. We conducted walkthrough sample observations and reviews of material pertinent to the follow-up audit. We also reviewed the *iasWorld* computerized information software, data in individual property records, and the city's document management system, *DocuShare*. We also reviewed applicable sections of the Revised Ordinances of Honolulu.

During the audit we were not aware of any other investigations, audits or other work by other agencies that may have impacted our work. In addition, we did not become aware of any possible fraud, waste or abuse situations during the course of the audit relative to the audit objectives.

Our follow-up audit on the 17 open recommendations from Report No. 13-02 was conducted between May and September 2019 in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Appendix B

Management Response

OFFICE OF THE MAYOR
CITY AND COUNTY OF HONOLULU

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KIRK CALDWELL
MAYOR



ROY K. AMEMIYA, JR.
MANAGING DIRECTOR
GEORGETTE T. DEEMER
DEPUTY MANAGING DIRECTOR

December 26, 2019

Mr. Troy Shimasaki
Acting City Auditor
Office of the City Auditor
City and County of Honolulu
1001 Kamokila Boulevard, Suite 216
Kapolei, Hawaii 96707

Dear Mr. Shimasaki:

SUBJECT: Follow-Up on Recommendations from Report No. 13-02
Audit of the Real Property Assessment Division

We appreciate the opportunity to comment on the Follow-Up on Recommendations from Report No. 13-02, *Audit of the Real Property Assessment Division*, dated November 2019. We take the work of the City Auditor seriously. As documented in your report, the Department of Budget and Fiscal Services, Real Property Assessment Division (RPAD), has made significant improvements in its historic property dedication programs. Although a few meetings were held to provide additional information and respond to questions from your staff, there was little or no discussion on topics such as the classification of adult residential care homes and the tax adjustments or tax compromises resulting from Resolutions 10-260 and 11-105.

After careful review of the follow-up report, we continue to share a different perspective of the audit's recommendations. Our detailed response to the follow-up recommendations, as numbered in your report and described as "not started" or "in process," is provided below.

RESPONSE TO RECOMMENDATIONS AS NUMBERED IN THE FOLLOW-UP AUDIT REPORT

1. *Develop and enforce policies and procedures that conform to professional standards and best practices. The written policies and procedures should:*
 - (a) *require the use of uniform methods and techniques to classify, value, and assess real properties;*

Response: Completed. The Real Property Assessment Division staff are members of the International Association of Assessment Officers (IAAO) which is recognized as the leader in standardization of assessment methodology, and follows the Technical Standards and statistical guidelines to ensure a uniform and equitable assessment. The objective of the IAAO standards is to provide a

Mr. Troy Shimasaki
December 26, 2019
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systematic means by which assessing officers can improve and standardize the operations of their office. The ratio study report (CA113) and other statistical measures were reviewed by the auditor and concluded this is the only study that management and staff utilizes to classify, value, and assess property. From data collection and validation, sales verification, to the final value reconciliation, appropriate appraisal methodologies are applied and verified for uniformity and equity with statistical testing. Assessments are checked multiple times to ensure uniformity and equity between models within neighborhoods and between neighborhoods island wide;

- (b) *ensure properties are assigned and classified based on the highest and best use and/or the current use;*
- (c) *ensure mixed use real properties are properly classified, valued, prorated, and assessed; and*

Response to 1(b) and 1(c): Completed. Highest and Best Use (HBU) as related to the classification (not valuation) of properties is a function of a parcels zoning and is required under the Revised Ordinances of Honolulu (ROH) and is not an appraisal function. Exceptions to HBU classification are condominium units, Dedicated Use parcels and Conditional Use Permits (CUP) that are provided through ROH and are non-discretionary. The Division runs reports to match zoning and classification and any outliers are reviewed, researched and validated.

- (d) *properly classify, value, prorate, and assess real properties used as adult residential care homes, skilled nursing/intermediate care facilities, and other mixed used properties;*

Response: Disagree. Group living and special needs housing for elderly are listed in the Land Use Ordinance (LUO) under "dwellings and lodging," and are a permitted use under residential zoning with appropriate licenses from the State Department of Health, they are not "commercial uses." Additionally, neither use is allowed in B-1 or B-2 zoning, and therefore, these parcels should not be classified as commercial.

4. *Complete the processing and documentation of real properties granted tax adjustments or tax compromises under Resolutions 10-260 and 11-105;*
5. *Develop an accurate and reliable list of properties affected by its reclassifications of real properties and reverse any tax adjustments or tax compromises that were granted to nonqualified real property owners under the auspices of Resolution 10-260 and 11-105;*
6. *Correct and collect all tax property assessments due from unqualified real property owners who were granted tax adjustments or tax compromises under the Resolutions 10-260 and 11-105;*

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Response to Items 4, 5, 6: Completed. Resolutions 10-260 and 11-105 offered an extended opportunity for property owners to file a residential use dedication for a tax adjustment or compromise consideration. However, that opportunity is no longer available and RPAD believes this recommendation has been completed. Each year, the residential use dedication list is posted on the RPAD website. Regarding Resolutions 10-260 and 11-105, collection efforts and corrections due from unqualified tax payers have been completed.

Additionally, each reclassified property is statutorily required to receive notification through the annual assessment notice process where an accurate and reliable list is generated.

9. *Cancel the historic property dedication exemptions for properties with commercial activities on residential properties without a conditional use permit;*

Response: Completed. RPAD maintains that the historic residential dedication ordinance does not preclude an owner from conducting legal non-residential activities on their property. The division does not recognize illegal land uses by classifying property based on such uses, thus considers this recommendation as completed.

12. *Rely more on information systems, such as iasWorld, for mass appraisals, real property assessments, and to streamline the existing, complex, manual process for classifying and assessing real properties;*
13. *Use the iasWorld system capabilities to determine property values and perform appraisals and assessments of real properties, and use manual processes and State of Hawai'i data as a double check of the iasWorld results;*
14. *Develop a data quality assurance program that periodically and regularly verifies that iasWorld data are current, complete, updated, accurate, and reliable;*
15. *Develop and implement a data quality assurance program as recommended by professional standards and best practices to ensure real property tax assessment data is accurate, reliable, complete, updated, and current. The quality assurance program should include: Items (a) through (e)*

Response to Items 12 - 15: Ongoing. RPAD understands the role of technology can have on enhancing processes and continually seeks ways to improve data collection. RPAD conducts over 100 system queries on relevant data tables and fields as part of its robust data quality assurance program. As part of the ongoing data collection and verification process, assessors verify property data records upon transaction of the property, building permit validation and appeal reviews. Additional inspections are scheduled to visit all properties over a period of 10 years as workload permits.

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16. *Develop and enforce written policies and procedures for:*
- (a) *appraising and valuing properties so that uniform, consistent, accurate, and reliable results are obtained;*
 - (d) *requiring continuous communications and coordination with the Department of Planning and Permitting on issues such as tax assessment efforts, inspection results, valuations and appraisals, violations, and enforcement actions;*
 - (c) *ensuring uniform methods and techniques are used to value and appraise similar real properties in different zones or dissimilar properties in the same zone;*

Response to 16(a) to 16(c): Ongoing. RPAD continues to understand the importance of clear and concise policies and procedures, as well as communication and coordination with DPP. Ongoing efforts are being made to improve workflow and increase assessment accuracy.

17. *Remove exemptions for real properties that are misclassified or not complying with permitted uses for the assigned zoning or classification.*

Response: Ongoing. RPAD continues to work with DPP to improve communications on various issues, including newly passed affordable rental housing ordinances. RPAD does not grant or continue exemptions to those who do not meet ordinance requirements. In some cases, the ordinance does not automatically disqualify an applicant from receiving an exemption due to a violation of the LUO.

Thank you again for allowing us to provide feedback on your draft report. We hope that you will give careful consideration to our comments in your final report. If you have any questions, please contact Steven H. Takara, Administrator, Real Property Assessment Division, Department of Budget and Fiscal Services, at 768-7901.

Warm regards,



Roy K. Amemiya, Jr.
Managing Director

cc: Nelson H. Koyanagi, Jr., Director
Budget and Fiscal Services