

## EXECUTIVE DIGEST

# HOMESTEAD PROPERTY TAX EXEMPTION PROGRAM

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### INTRODUCTION

This report, issued in July 1998, contains the results of our performance audit\* of the Homestead Property Tax Exemption Program, Department of Treasury.

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

On March 15, 1994, voters approved ballot proposal A. Among its provisions, the proposal included a State education tax on all real property and a separate real property tax on nonhomestead property that did not qualify for an agricultural exemption. To be exempted from the nonhomestead property tax, a homeowner had to file for and receive a homestead property tax exemption\* .

The Homestead Property Tax Exemption Program is administered by the Department of Treasury. The homestead exemptions were received and processed by the Homestead Affidavit Unit, Individual Taxes Division, Bureau of Revenue. During the period June 1 through

November 1, 1997, the Unit was in transition and was transferred to the Local Property Services Division, Bureau of Local Government. As of January 31, 1998, the Unit had 6 permanent and 14 temporary employees. For fiscal year 1996-97, the Unit's operating costs approximated \$474,000.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To assess the effectiveness and efficiency of the Department's administrative functions to ensure the completeness and accuracy of the homestead property tax exemption data base\*.

**Conclusion:** We concluded that the Department's administrative functions to ensure the completeness and accuracy of the homestead property tax exemption data base were generally effective and efficient. However, we noted reportable conditions\* related to the data base and social security numbers (Findings 1 and 2).

**Audit Objective:** To assess the effectiveness and efficiency of the Department in reviewing homestead property tax exemptions for appropriateness.

**Conclusion:** We concluded that the Department was generally effective and efficient in reviewing homestead property tax exemptions for appropriateness. However, we noted reportable conditions related to update forms\* , Internal Revenue Service information, and additional follow-up (Findings 3 through 5).

**Audit Objective:** To assess the effectiveness of the Department's monitoring and follow-up of the local units' processing of homestead property tax exemptions which

the Department had denied or rescinded and of the local units' collection of additional taxes.

**Conclusion:** We concluded that the Department's monitoring and follow-up of the local units' processing of homestead property tax exemptions which the Department had denied or rescinded and of the local units' collection of additional taxes were generally effective.

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Homestead Property Tax Exemption Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included examining records for the period January 1994 through January 1998. To accomplish our audit objectives, we reviewed procedures, analyzed reports, and evaluated the Department's conclusions regarding the appropriateness of property tax exemptions and controls related to the local units' processing of exemptions and their collection of additional taxes. Also, we performed selected tests of the data base, affidavit forms\* and update forms, and other records.

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**AGENCY RESPONSES**

Our audit report includes 5 findings and corresponding recommendations. The Department generally agreed with the recommendations. However, the Department stated that, in some cases, the cost to implement the recommendation would exceed the benefit or additional staff and system resources would be needed.