



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**ADMINISTRATION OF REAL PROPERTY TAXES,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 99-I-379
MARCH 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 30 1999

Honorable Charles W. Turnbull
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on the Administration of Real Property Taxes, Government of the Virgin Islands (No. **99-I-379**)

Dear Governor Turnbull:

This report presents the results of our audit of the administration of real property taxes by the Tax Assessor's Office and the Department of Finance, Government of the Virgin Islands. The objective of the review was to determine whether (1) the Tax Assessor's Office had adequate resources and procedures in place to ensure that property values were equitably determined, property taxes were assessed, and tax exemptions were granted equitably and in an effective and efficient manner and (2) the Department of Finance collected real property taxes efficiently and effectively.

Based on our audit, we found that improvements were needed in the administration of real property tax exemptions and the collection of real property taxes. Specifically:

- The Tax Assessor's Office, although it was generally effective in determining the assessed value of real property and computing real property taxes, did not ensure that property tax exemptions were granted to taxpayers in accordance with established requirements. As a result, at least 55 ineligible taxpayers received farmland exemptions totaling \$65,317, 39 taxpayers who did not have valid applications received nonprofit exemptions totaling \$75,888, and 8 ineligible businesses received industrial exemptions totaling \$159,024. In addition, 3,188 taxpayers received homestead, veterans, and senior citizen exemptions for tax year 1996 that were \$209,942 less than what they should have been.

- The Department of Finance did not maintain accounts receivable records for delinquent real property tax bills and did not effectively enforce the collection of delinquent taxes. In addition, improvements were needed with regard to the internal controls for collecting and recording property taxes by the Department and for processing tax appeals by the Board of Tax Review. As a result, we estimated that delinquent property taxes totaled at least \$15.4 million, the Government's revenue accounts were not up to date because of delays in the posting of property tax collections, and taxpayers were not afforded timely hearings of their appeals of real property tax assessments.

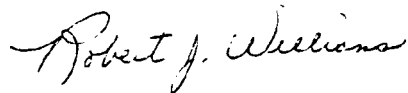
The Governor of the Virgin Islands was requested to provide a written response to the draft report by February 26, 1999, and the Lieutenant Governor requested an extension to March 19. However, a response to the draft report has not been received. Therefore, this report is being issued without the benefit of your comments, and all of the recommendations are considered unresolved (see Appendix 2).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by April 30, 1999. The response should be addressed to our Caribbean Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should provide the information requested in Appendix 2.

We appreciate the assistance provided by the Office of the Tax Assessor and the Department of Finance during the conduct of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Robert J. Williams".

Robert J. Williams
Acting Inspector General

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INTRODUCTION

BACKGROUND

The requirements for the administration of real property taxes are contained in Title 33 of the Virgin Islands Code as follows: Chapter 81 defines the real property tax rates and various tax exemptions that are available to taxpayers, Chapter 83 defines the administrative responsibilities of the Tax Assessor, Chapter 85 defines the procedures to be used to assess the value of real property, Chapter 87 defines the responsibilities of the Board of Tax Review in handling appeals of property tax assessments, and Chapter 89 defines the responsibilities of the Tax Assessor and the Department of Finance with regard to billing and collecting real property taxes. In general, the Tax Assessor's Office (a branch of the Office of the Lieutenant Governor) is responsible for determining the taxable (or assessed) value of real property, calculating the amount of the property taxes, granting property tax exemptions, and printing the property tax bills. The Department of Finance is responsible for the collection of real property taxes, including collection enforcement actions for delinquent taxes.

Real property is taxed at 1.25 percent of the assessed value of the property, which is defined as 60 percent of the actual value of the property as determined by the Tax Assessor. Unimproved real property (land) of up to 5 acres that was acquired through inheritance is taxed at 0.25 percent of the assessed value until the value of improvements reaches or exceeds \$5,000. The following property is exempted from property taxes: property owned by Federal and local governments and property used exclusively for religious worship; property used for educational, literary, scientific, or charitable purposes; and property on which cemeteries are located. In addition, the Virgin Islands Code provides for varying levels of real property tax exemptions for homesteads, veterans, senior citizens, farmlands, and certain types of nonprofit organizations. Further, commercial establishments participating in the Virgin Islands Industrial Development Program may be granted varying levels of real property tax exemptions by the Virgin Islands Industrial Development Commission.

For tax year 1996, 28,223 real property tax bills were issued in the St. Thomas/St. John district, and 26,700 bills were issued in the St. Croix district. For the same tax year, 7,711 property tax exemptions (5,687 homesteads, 1,621 veterans and senior citizens, 159 nonprofits, 108 farmlands, 8 inheritances, and 128 industrial firms) were granted to 7,580 taxpayers in the St. Thomas/St. John district, and 9,276 exemptions (6,409 homesteads, 2,399 veterans and senior citizens, 68 nonprofits, 3 18 farmlands, 82 industrial firms, and no inheritances) were granted to 9,276 taxpayers in the St. Croix district. In accordance with existing policy, taxpayers can receive multiple farmland or industrial exemptions based on the number of parcels of real property used for approved farming and industrial purposes.

According to records at the Department of Finance, real property tax collections totaled \$50.5 million during fiscal year 1995, \$20.1 million during fiscal year 1996, and \$45.9 million during fiscal year 1997. Property tax collections during fiscal year 1996

decreased as a result of Hurricane Marilyn in September 1995. Unpaid real property tax bills on file at the offices of the Department of Finance as of July 28, 1998, totaled \$15.4 million (\$6.7 million for St. Croix, \$6.3 million for St. Thomas, and \$2.4 million for St. John). The Tax Assessor's Office had a total of 41 employees on all three islands, and the Revenue Collection Branch of the Department of Finance had a total of 24 employees on all three islands.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether (1) the Tax Assessor's Office had adequate resources and procedures in place to ensure that property values were equitably determined, property taxes were assessed, and tax exemptions were granted equitably and in an effective and efficient manner and (2) the Department of Finance collected property taxes **efficiently** and effectively. The audit was conducted **from** March through October 1998 at the offices of the Tax Assessor's Office and of the Department of Finance on all three islands.

Our review was in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of our audit, we evaluated the internal controls over the assessment of real property taxes, including the granting of property tax exemptions, and the collection of real property taxes to the extent necessary to achieve the audit objective. The internal control weaknesses identified in these areas are addressed in the Findings and Recommendations section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

The Office of Inspector General has not conducted any audits of real property tax administration during the past 5 years. However, our April 1990 report "Followup of Recommendations Concerning Property Tax Administrative Activities, Government of the Virgin Islands" (No. 90-67) stated that (1) the Department of Finance could enhance efficiency, increase revenues, and reduce the risk of property tax losses by improving collection procedures and (2) the Tax Assessor's Office needed to document and monitor the eligibility of taxpayers for property **tax** exemptions **and** monitor building permits for property improvements that were subject to increased taxes. The report also stated that the Board of Tax Review had not acted promptly on tax appeals because the Governor had not appointed a **sufficient** number of members to form a quorum. We considered 5 of the report's 10 recommendations unresolved, and based on our current audit, we found that the reported deficiencies still existed.

In addition, in June 1994, the Virgin Islands Bureau of Audit and Control issued the audit report "Billing and Collection of Real Property Taxes," which stated that (1) the Department of Finance did not have complete and accurate accounts receivable records but that the

amount of delinquent real property taxes was estimated by the auditors at \$17.7 million plus \$6.1 million in penalties and interest, (2) auctions of delinquent properties were not properly scheduled or held and did not include all delinquent properties, (3) controls were inadequate for accounts where partial payments had been made, (4) unimproved land was not always taxed, (5) tax appeals were not promptly scheduled or heard, and (6) the Tax Assessor's Office and the Department of Finance did not effectively and efficiently coordinate with each other on the assessment and collection of real property taxes. The report's 17 recommendations were considered unresolved.

FINDINGS AND RECOMMENDATIONS

A. ASSESSMENT OF PROPERTY TAXES

Although the Tax Assessor's Office was generally effective in determining the assessed value of real property and computing real property taxes, the Office inappropriately granted property tax exemptions to taxpayers. Title 33, Chapter 81, of the Virgin Islands Code contains the general provisions regarding the eligibility for and the level of property tax exemptions. The deficiencies occurred because the Tax Assessor's Office did not (1) ensure that annual applications were submitted for farmland and nonprofit exemptions, (2) did not coordinate with the Virgin Islands Department of Agriculture to develop joint policies and procedures for the processing of farmland exemptions, (3) did not coordinate with the Virgin Islands Industrial Development Commission to develop joint procedures for ensuring that only eligible firms received industrial exemptions, and (4) did not implement procedures to verify that certain exemptions were supported by valid applications. Additionally, officials in the Tax Assessor's Office said that they were not aware of recent revisions to the Virgin Islands Code which increased the level of certain exemptions. As a result, at least 55 taxpayers who did not have valid applications received farmland exemptions totaling \$65,317, 39 taxpayers who did not have valid applications received nonprofit exemptions totaling \$75,888, and 8 businesses that were ineligible received industrial exemptions totaling \$159,024. Additionally, 3,188 taxpayers received homestead, veterans, and senior citizen exemptions that were \$209,942 less than what they should have been, which required credits to be issued on subsequent property tax bills.

Tax Exemption Requirements

The Tax Assessor's Office did not ensure that property tax exemptions were granted only to taxpayers who were eligible and who had submitted required applications for exemptions. The Virgin Islands Code provides real property tax exemptions as follows:

- Homestead exemptions of up to \$20,000 of the assessed value of real property used as the primary residences of taxpayers (Title 33, Section 2305, of the Virgin Islands Code).
- Veterans exemptions of up to \$25,000 of the assessed value of real property used as the primary residence of taxpayers who are veterans or the widows of veterans and full exemptions for veterans who have military service disabilities (Title 33, Section 2305, of the Virgin Islands Code).
- Senior citizen exemptions of up to \$30,000 of the assessed value of real property used as the primary residence of taxpayers who are 60 or more years of age and whose annual gross income does not exceed \$10,500 (Title 33, Section 2305, of the Virgin Islands Code).
- Farmland exemptions of 95 percent of the real property taxes imposed on property that is "used actively and solely for agricultural or horticultural purposes" (Title 33, Section 2342, of the Virgin Islands Code).

- Nonprofit exemptions of 100 percent of the real property taxes imposed on property “owned by or held in trust for any nonprofit organization” that is used (1) for recreational purposes; (2) to preserve open spaces, greenbelt areas, buffer zones, or nature preserves; (3) as historical sites or museums; or (4) for scientific or educational purposes (Title 33, Section 2355a, of the Virgin Islands Code). Under Title 33, Section 2304, of the Virgin Islands Code, real property used exclusively for religious worship or as cemeteries is also exempt from real property taxes.

Farmland and Nonprofit Exemptions. In the case of farmland and nonprofit exemptions, the Virgin Islands Code requires that taxpayers file annual applications for exemption on or before October 1 of the tax year for which an exemption is sought. However, we found that the Tax Assessor’s Office did not enforce this legal requirement as follows:

- Based on our review of the files for 71 farmers (45 on St. Thomas and 26 on St. John), who had 108 parcels of taxable land, we found that 55 taxpayers received exemptions totaling \$65,317 without complying with the annual application requirement. For example, one taxpayer on St. Thomas received a farmland exemption of \$22,457, although he had not submitted an application for farmland exemptions for tax year 1996. We also found that although the Virgin Islands Code requires that applicants for farmland exemptions be certified as eligible by the Virgin Islands Department of Agriculture, such certification was not obtained in at least two instances where farmland applications had been filed. Additionally, the informal (unwritten) criteria used by the Department of Agriculture in determining eligibility for farmland exemptions were different from the informal (unwritten) criteria used by the Tax Assessor’s Office in granting the farmland exemptions. For example, although the Department of Agriculture had informal criteria regarding the number of farm animals per acre and the level of income generated from farming activities, the Tax Assessor’s Office did not use or apply these criteria and did not have any similar criteria. In our opinion, the Tax Assessor’s Office and the Department of Agriculture should therefore coordinate the establishment of formal written policies regarding the eligibility requirements for farmland exemptions and the procedures for processing applications for farmland exemptions.

- Based on our review of the files for 69 nonprofit taxpayers (25 on St. Thomas and 44 on St. Croix), we found that 39 of the taxpayers received exemptions totaling \$75,888, although they had not submitted applications for nonprofit exemptions for tax year 1996. At the December 22, 1998, exit conference on the preliminary draft of this report, officials of the Tax Assessor’s Office stated that they had not required annual applications from long-established nonprofit organizations, such as the Boy Scouts and the Girl Scouts, but that they would implement procedures to remind such organizations of the annual application requirement.

Industrial Exemptions. Under the Government’s Industrial Development Program, the Virgin Islands Industrial Development Commission may approve real property tax exemptions as part of an incentive package to attract businesses to the Virgin Islands. However, because the Tax Assessor’s Office and the Industrial Development Commission

did not have formal procedures to ensure that the Tax Assessor's Office was informed of the tax-exempt status of firms participating in the Industrial Development Program, eight ineligible businesses received industrial exemptions totaling \$159,024 for tax year 1996 as follows:

- In the St. Thomas/St. John district, 3 of 19 businesses reviewed received exemptions totaling \$13 1,656 to which they were not entitled. One business had ceased operations in September 1995, another business had assets that were transferred from another company and was not eligible for the exemptions, and the third business had never been a participant in the Industrial Development Program.

- In the St. Croix district, 5 of 24 businesses reviewed received exemptions totaling \$27,368 to which they were not entitled. One business had ceased operations in March 1995, another had ceased operations in September 1995, and the other three businesses had never been participants in the Industrial Development Program.

We also found that a participant in the Industrial Development Program that was eligible to receive real property tax exemptions through the year 2004 was not granted such an exemption by the Tax Assessor's Office in tax year 1996. We believe that the Tax Assessor's Office and the Industrial Development Commission should coordinate to establish formal written procedures to ensure that the Tax Assessor's Office is promptly notified of changes in the tax-exempt status of businesses participating in the Industrial Development Program. At the December 22, 1998, exit conference on the preliminary draft of this report, officials of the Tax Assessor's Office stated that they had met with Industrial Development Commission officials to develop joint procedures to ensure accurate application of industrial tax exemptions.

Homestead, Veterans, and Senior Citizen Exemptions. For tax years 1994, 1995, and 1996, the Tax Assessor's Office awarded incorrect amounts of tax exemptions for homestead, veterans, and senior citizen tax exemptions. This occurred because officials of the Tax Assessor's Office were not aware that the section of the Virgin Islands Code related to these classes of exemptions had been revised in 1994 and 1995. Based on our review of 105 exemptions (55 homestead exemptions and 50 veterans and senior citizen exemptions), we found that the homestead exemptions were based on the prior limit of \$15,000 of assessed value instead of the revised limit of \$20,000 and that the veterans and senior citizen exemptions were based on the prior limit of \$20,000 instead of the revised limits of \$25,000 for veterans and \$30,000 for senior citizens. After we informed officials of the Tax Assessor's Office of these inaccurate tax exemption amounts, they recalculated the exemption amounts for tax year 1996, which resulted in credits totaling \$192,255 being given to 3,117 taxpayers on their 1997 property tax bills and credits totaling \$17,687 to be given to 71 taxpayers on their 1998 property tax bills.

Inheritance Exemptions. Three families (two on St. Thomas and one on St. John) received inheritance exemptions from real property taxes for a total of eight parcels of land. However, the amount of the exemptions was based on assessments of the value of the properties that were 9 to 17 years old and therefore may not have reflected the current value

of the properties. Additionally, the amount of the applicable tax was calculated on the basis of 75 percent of the assessed value (60 percent of the actual value) of the property times the standard 1.25 percent tax rate instead of on the basis of the assessed value times the special 0.25 percent tax rate specified in Title 33, Section 230 1, of the Virgin Islands Code. Further, because very few descendants of deceased taxpayers had taken advantage of the inheritance exemption (including none on St. Croix), we believe that many Virgin Islands residents may not be aware of the inheritance exemption.

Maintenance and Security of Exemption Applications

Title 33, Section 2305, of the Virgin Islands Code requires that property owners who desire to receive a homestead, veterans, or senior citizen exemption submit a notarized application for such exemption to the Tax Assessor's Office. Taxpayers applying for a veterans or a senior citizen exemption are also required to submit specific supporting documentation with their applications, for example, a copy of Military Form DD2 14 ("Report of Transfer or Discharge") for veterans and a copy of an identification card for senior citizens. The Virgin Islands Code also requires that organizations which desire to receive a nonprofit exemption submit certified applications annually.

Despite these requirements, we could not find, at the Tax Assessor's Office, approved applications for 67 homestead, 87 veterans and senior citizens, and 39 nonprofit exemptions. An official at the Tax Assessor's Office told us that the prior applications for homestead, veterans, and senior citizen applications, which do not require annual renewals, were placed in storage at the Lieutenant Governor's Office when the Tax Assessor's Office moved to its current location. The official stated that all tax exemptions are legitimate because an exemption could not be granted without an application. However, we could not verify the accuracy of that statement because, despite our repeated requests, the applications were not retrieved from storage for our review. With regard to nonprofit exemptions, another official of the Tax Assessor's Office stated that because some nonprofit organizations had been in existence for a long time, annual exemption applications were not necessary. However, Title 33, Section 2355b, of the Virgin Islands Code states that eligibility for nonprofit exemption "shall be determined by the tax assessor for each and every year for which such exemption is sought" on the basis of applications filed "on or before October 1 of the tax year for which such exemption is sought."

Additionally, based on a review of 394 exemption applications (271 homestead, 42 veterans, and 81 senior citizen) on St. Thomas for tax year 1998, we found that 95 applications did not contain one or more of the required supporting documents, such as a Military Form DD2 14 or a senior citizen identification card. Based on our review of 50 homestead exemption applications on St. Croix, we found that 3 applications did not have valid addresses or the names of the current property owners.

Because ownership of real property changes frequently, we believe that the Tax Assessor's Office should maintain the tax exemption application files at a location where the eligibility of taxpayers can be better verified for the various classes of tax exemptions. If storage space

is limited, the Tax Assessor's Office should consider the use of microfiche or computerized document storage and retrieval systems to maintain the exemption application files.

Computerized Operations

In 1996, the Tax Assessor's Office implemented a computerized property assessment system based on software developed by a firm in Florida. However, because the software did not incorporate some features that exist in the Virgin Islands property tax system, many operations had to be performed manually. For example:

- The property assessment software provided only for the use of one schedule for construction costs and did not incorporate the lower construction costs present on St. Croix. Therefore, the Tax Assessor's Office adjusted St. Croix property assessments before the property tax bills were printed.

- The property assessment software did not include a module for printing the property tax bills. Therefore, the Tax Assessor's Office had to develop an in-house database into which the property assessment data was input and from which the bills were printed.

- Neither the property assessment software nor the in-house database provided a mechanism to identify property tax exemptions for which a valid application was not on file. Therefore, taxpayers with farmland and nonprofit exemptions in the prior tax year were automatically given the same exemptions in the current tax year, even if they did not file the required annual applications.

We believe that the Tax Assessor's Office, in coordination with the Department of Finance, should perform a study of Virgin Islands property tax policies and procedures and develop the specifications for a comprehensive computerized property tax system which minimizes the need for manual intervention in the process of preparing annual property tax bills. To the extent possible, such a computerized system should also provide the capability to maintain current and accurate records of outstanding real property tax bills (see Finding B). At the December 22, 1998, exit conference on the preliminary draft of this report, officials of the Tax Assessor's Office stated that, subsequent to the audit, additional modules of the overall property tax assessment system had been implemented and that those modules had corrected some of the deficiencies noted during our review.

Undelivered Property Tax Bills

The Tax Assessor's Office did not have procedures regarding undelivered real property tax bills. Based on our review, we found that 339 "land only" property tax bills, totaling \$147,350, for 1995 and 1996 and about 3,360 "land and improvements" property tax bills (amount not readily determinable) for 1997 were returned to the Tax Assessor's Office as undeliverable. The reasons for the returns, according to the U.S. Postal Service annotations on the envelopes, were incorrect or incomplete addresses, no forwarding addresses, and insufficient postage. The addresses used by the Tax Assessor's Office to mail property tax bills were obtained from the property deeds at the Recorder of Deeds Office (another branch

of the Office of the Lieutenant Governor). However, those addresses were often the physical addresses of the property involved in the deeds, not the property owners' mailing addresses. Therefore, we believe that the Recorder of Deeds Office should implement procedures which ensure that valid mailing addresses for new property owners are obtained when the deeds are presented for recording. At the exit conference on the preliminary draft of this report, the Lieutenant Governor's representative stated that the Lieutenant Governor had directed the Recorder of Deeds Office to ensure that property owners' mailing addresses were recorded on all new property deeds.

Recommendations

We recommend that the Governor of the Virgin Islands direct the Tax Assessor to:

1. Coordinate with the Virgin Islands Department of Agriculture, the Virgin Islands Industrial Development Commission, and other Government agencies, as appropriate, to establish and implement formal written procedures regarding the eligibility requirements for real property tax exemptions and the processing of applications for such exemptions. For industrial development exemptions, the procedures should ensure that the Tax Assessor's Office is promptly notified of changes in the tax-exempt status of businesses participating in the Industrial Development Program. For homestead, veterans, and senior citizen exemptions, the procedures should incorporate the latest revisions to the level of tax exemptions, as provided in Title 33, Section 2305, of the Virgin Islands Code.

2. Provide public notification of the existence of the inheritance exemption and the eligibility and application requirements.

3. Implement a filing system for tax exemption applications that provides the staff of the Tax Assessor's Office with easier access to such files for the purpose of verifying taxpayers' eligibility for exemptions. Consideration should be given to using either microfiche or computerized document storage technology to minimize the need for physical storage space.

4. Coordinate with the Virgin Islands Department of Finance to develop specifications for and to implement a comprehensive real property tax administration system which minimizes the need for manual processing and also provides the capability to maintain current and accurate records of outstanding real property tax bills.

5. Coordinate with the Recorder of Deeds Office to establish and implement procedures which ensure that valid mailing addresses for new property owners are obtained when deeds are presented for recording.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The Governor of the Virgin Islands did not provide a response to the draft report. Therefore, the five recommendations are considered unresolved (see Appendix 2).

B. COLLECTION OF PROPERTY TAXES

The Department of Finance did not maintain accounts receivable records for delinquent real property tax bills and did not effectively enforce the collection of delinquent taxes. In addition, improvements were needed with regard to the internal controls for collecting and recording property taxes by the Department and for processing tax appeals by the Board of Tax Review. The basic requirements for the collection of property taxes and for controls over collections are contained in Title 33, Chapter 89, of the Virgin Islands Code; the Collection Enforcement Section Procedure Manual of the Department of Finance; and the Government of the Virgin Islands Accounting Manual. However, the deficiencies occurred because the Department's Enforcement Section was under consideration for restructuring or transfer to another agency and was not adequately staffed. Additionally, the Department did not provide adequate oversight of cashiers. As a result, we estimated that delinquent property taxes for bills on file at the Department's offices totaled \$15.4 million, the Government's revenue accounts were not up to date because of delays in the posting of property tax collections, and taxpayers were not afforded timely hearings on their appeals of real property tax assessments.

Collection Activities

The Department of Finance did not have accounts receivable records to show the status of outstanding real property tax bills. Therefore, we manually tabulated the outstanding bills at the Department's offices and determined that, as of July 28, 1998, at least 24,169 property tax bills (for tax years 1971 through 1994), totaling \$15.4 million, were delinquent, as shown in Table 1.

Table 1. Delinquent Real Property Tax Bills

<u>Island</u>	<u>Number of Bills</u>	<u>Outstanding Amounts</u>
St. Thomas	11,688	\$6,300,888
Christiansted, St. Croix	8,605	6,191,465
Frederiksted, St. Croix	1,052	560,549
St. John	<u>2,824</u>	<u>2,363,757</u>
Total	<u>24,169</u>	<u>\$15,416,659</u>

We found that the absence of accurate and up-to-date accounts receivable records hampered the Department's efforts to carry out effective collection activities because enforcement officers did not have easy access (without searching through filing cabinet drawers filled with outstanding bills) to information on who owed real property taxes and the amounts owed by individual taxpayers.

We also found that, at least since September 1995, the Department had not aggressively pursued the collection of outstanding real property taxes. The Supervising Enforcement Officer told us that after Hurricane Marilyn in September 1995, the Commissioner of Finance stopped field collection efforts by the Department's enforcement officers and subsequently discontinued efforts by the enforcement officers to contact delinquent taxpayers by telephone because the Commissioner did not believe that it was appropriate for the enforcement officers to be contacting delinquent taxpayers at their places of work. The Commissioner of Finance told us that he was considering "re-engineering" the Department's Collection Enforcement Section. The Supervising Enforcement Officer said that one option being considered was to transfer the collection enforcement function to another government agency. As a result, the collection enforcement officers were performing such tasks as providing security to the cashiers when making daily deposits, issuing tax clearance letters for business license applications, processing payments received by mail, and posting payments to the property tax rolls instead of executing collection efforts.

Even if the enforcement officers continued performing field collections, these efforts would have been hampered because the number of enforcement officers had decreased significantly from 1994 to 1998. Specifically, the number of enforcement officers decreased from 12 to 2 on St. Thomas and from 8 to 6 on St. Croix during the 4-year period. This occurred primarily because eight enforcement officers on St. Thomas and two enforcement officers on St. Croix retired under provisions of an early retirement law enacted by the Virgin Islands Legislature in 1994. The remaining two enforcement officers on St. Thomas transferred to other government agencies. Department of Finance officials told us that the vacant positions had since been removed from the Department's budget and that, if collection enforcement efforts were to be reinstated, the existing number of enforcement officers would not be sufficient for the Collection Enforcement Section to function effectively.

Auction Sales. Title 33, Section 2541, of the Virgin Islands Code authorizes the Commissioner of Finance to attach and sell at public auction the real property of taxpayers who are delinquent in paying real property taxes. As part of the process, as described in Section 203 of the Collection Enforcement Section Procedure Manual, enforcement officers are required to issue, after making telephone or personal contacts with delinquent taxpayers, a series of delinquency letters to the taxpayers followed by service of a Notice of Attachment. After the Notice of Attachment has been served, a Certificate of Attachment is prepared by the Department of Finance and forwarded to the Recorder of Deeds Office to record the lien against the property. Based on our review of files for 8 19 Certificates of Attachment issued during 1990 through 1995 and in 1997 and 1998, we found that the corresponding Notices of Attachment to document that the delinquent taxpayers had been served were not on file in 65 instances and that liens had not been properly recorded in 3 instances.

After the Certificates of Attachment are recorded, the Department of Finance should follow the guidelines contained in Section 204 of the Collection Enforcement Section Procedure Manual to sell the attached property at auction sales. We found that during the most recent auction sale, which was held by the Department of Finance on St. Thomas in April 1997, 10 properties, valued at over \$290,000, were sold. However, the liens related to these properties had been recorded from 7 to 15 years prior to the date of the auction. On

St. Croix, we found that none of the properties in our sample of 25 (out of 738) recorded Certificates of Attachment had been sold at auction. The most recent auction sales on St. Croix were conducted in March 1995 in Frederiksted and in July 1995 in Christiansted. We believe that if the Department of Finance had been more aggressive in the use of attachments and auction sales, as provided by the Virgin Islands Code, the amount of delinquent real property taxes would have been significantly less than \$15.4 million for the 24,169 bills that we found at the Department of Finance.

Tax Amnesty Program. The Government of the Virgin Islands, through laws enacted by the Legislature and approved by the Governor, provided delinquent property owners with a 13-month amnesty period (beginning on January 30, 1996) during which they could pay outstanding real property taxes without being liable for interest and penalties provided for in the Virgin Islands Code. Although the Government collected delinquent property taxes of \$12.1 million during this period, we believe that the use of a program which forgives all penalties and interest for property owners who do not routinely pay their taxes undermines the integrity of the real property tax system. That is, taxpayers who do not pay their taxes for several years and then are forgiven all penalties and interest through a tax amnesty program are, in effect, rewarded for their nonpayment of taxes.

Revenue Collections

The Department of Finance needed to improve controls over collections of real property taxes and other types of revenues collected by the Department's nine cashiers on the islands of St. Thomas, St. Croix, and St. John. Specifically, we found that (1) collections were deposited from 1 to 7 days after the date of collection, although the Government Accounting Manual requires that collections be deposited daily; (2) cashiers on St. Thomas and at Christiansted, St. Croix, did not prepare Daily Summaries of Collections and Deposits, as required by Section 3 10.5 of the Government Accounting Manual, to record and reconcile the amounts collected and deposited each day; (3) collections were not recorded as revenues in the Government's Financial Management System on a timely basis, with posting delays ranging from 3 to 6 months on the three islands; and (4) the Department did not have adequate procedures to keep track of and control partial payments received on outstanding property tax bills. These conditions existed because the Department did not provide an adequate level of supervisory oversight of the collectors' activities. For example, Departmental officials told us that supervisors did not periodically visit the collectors on St. Croix and St. John or perform unannounced cash counts. They also told us that the preparation of Daily Summaries of Collections and Deposits was discontinued in some offices because the collection process had been computerized.

Regarding the partial payments received on outstanding property tax bills, Title 33, Section 2494, of the Virgin Islands Code authorizes the Commissioner of Finance to make arrangements for installment payments when property taxes cannot be paid in full when the taxes are due. Departmental officials told us that about 2 1/2 years prior to the time of our audit, the Department used a Real Property Tax Installment Agreement to formalize such installment payment arrangements. However, we found that the Department was no longer requiring the use of the agreement form. Consequently, procedures varied among the

Department's offices. For example, at the St. Thomas, the St. John, and the Christiansted (St. Croix) offices, partial payments were documented on a Statement of Remittance, whereas at the Frederiksted (St. Croix) office, partial payments were noted on a copy of the property tax bill. Additionally, at the two offices on St. Croix, partial payments were deposited into the Government's General Fund, while at the St. Thomas and the St. John offices, partial payments were deposited into a Special Fund holding account until full payment was received, at which time the funds would be transferred to the General Fund. We reviewed the documents related to 48 transfers from the Special Fund to the General Fund, totaling \$135,000, and found that it took from 13 days to 8 years for partial payments to be completed and funds to be transferred to the General Fund.

Property Tax Appeals

The Virgin Islands Board of Tax Review comprises seven members, including the Commissioner of Finance, who serves as the chairman. The Board, as defined in Title 33, Section 2452, of the Virgin Islands Code, is required to hold hearings within 60 days of receiving a *written* complaint from a taxpayer who wants to appeal a real property tax assessment. We found, however, that the Board was not holding hearings as required because it could not always obtain a quorum. For example, during January 1994 to March 1998, the Board scheduled 25 hearings (for 403 individual taxpayer appeals); however, 15 of the hearings were canceled because of the lack of a quorum. Therefore, the taxpayers did not have the rights afforded them by law. Also, the Government did not receive all of the revenues due related to the property tax bills under appeal because taxpayers were required to pay only the prior property tax amount upon filing an appeal, and those amounts were held in escrow until the tax appeal cases were decided. The Executive Director of the Board told us that the terms of five members had expired but that it was difficult to find individuals willing to volunteer their time to serve on the Board.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Direct the Commissioner of Finance, in coordination with the Tax Assessor, to review the existing policies, procedures, and resources related to the collection of delinquent real property taxes and develop a comprehensive plan to restructure the Department of Finance's Collection Enforcement Section into a more proactive and effective collection unit. This plan should include the establishment of complete and accurate accounts receivable records for outstanding real property tax bills and more aggressive actions by the Department of Finance to attach and sell at auction the property of delinquent taxpayers who do not agree to at least make installment payments to liquidate their outstanding debt.
2. Provide the Department of Finance and, as appropriate, the Tax Assessor's Office with the staff and other resources necessary to effectively implement the collection enforcement program developed in response to Recommendation I.

3. Perform a thorough study of all pertinent factors, including the potential lost revenues, the likelihood of repeat offenders continuing to be delinquent, and the effect on the integrity of the real property tax system, before implementing any future amnesty programs.

4. Direct the Commissioner of Finance to ensure that his office's collection personnel comply with existing policies and procedures for the collection of property taxes and other amounts owed the Government. Specifically, collectors should make daily deposits, the Daily Summary of Collections and Deposits should be used to reconcile amounts collected and deposited, collections should be posted to the Financial Management System in a timely manner, and adequate control should be maintained over partial payments received. Additionally, operating procedures should be standardized at all Department of Finance offices, and adequate supervisory oversight should be provided for all collection personnel.

5. Seek and nominate, for legislative confirmation, members to the Board of Tax Review who will effectively carry out the Board's mandated responsibility of addressing taxpayer appeals of real property tax assessments.

Governor of the Virgin Islands Response and Office of Inspector General Reply

The Governor of the Virgin Islands did not provide a response to the draft report. Therefore, the five recommendations are considered unresolved (see Appendix 2).

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
A.1, A.2, A.3, A.4, and A.5	Unresolved.	Provide a response to the recommendations indicating concurrence or nonconcurrence. If concurrence is indicated, provide an action plan that identifies the target dates and the titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.
B.1, B.2, B.3, B.4, and B.5	Unresolved.	Provide a response to the recommendations indicating concurrence or nonconcurrence. If concurrence is indicated, provide an action plan that identifies the target dates and the titles of the officials responsible for implementation. If nonconcurrence is indicated, provide reasons for the nonconcurrence.

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