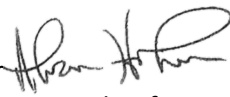




**OFFICE OF THE
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TO: Mark Lockridge, Auditor General
FROM: Alvin Horhn, Deputy CFO - Assessor 
SUBJECT: Office of the Auditor General's Forensic Audit of Citywide Residential Property Assessments
DATE: June 14, 2022

We appreciate and acknowledge the diligence involved in producing this audit report. We also acknowledge and thank our City of Detroit staff in the Office of the Assessor for their help and cooperation over the last 14 months in pulling together data, responding to emails and attending meetings, answering questions, and sharing documents. Our formal response to the findings identified in the Audit Report is attached to this memo.

The audit report has two main focus areas. It provides an overview of, and recommendations related to, the effectiveness of the assessment system and the system of internal controls; revisiting the history of overassessment which led to the Pre-Reappraisal Period of 2010 to 2016. It also discusses the actions taken by the City during the Pre-Reappraisal Period which culminated in the corrective actions taken and the reappraisal completed December 31, 2016 for valuations used to establish the 2017 assessment roll.

Several facts are helpful in reviewing the history and evaluating where overassessment activities may have resulted in over taxation are revealed in the report and the following information that offers context to the report. These include:

1. Between 2010 and 2016, a massive review of assessments resulted in 87% of residential property having an assessed value equal to taxable value by 2016.
2. Residential properties with the lowest values saw the greatest attention from this review.
3. By 2016 tax year, over 157,000 residential properties valued under \$20,000 had a taxable value equal to their assessed values; representing 87% of those properties.
4. Mayor Duggan's action to address the assessment process accelerated taxable value reductions, lowering taxable values of residential properties by over 26% in 2 years.

Pre-Reappraisal Period

While not essential for purposes of their recommendations, the report highlights some data in its "Additional Data Analysis" section which is important to consider in evaluating progress made in addressing the assessment practices. The report, in paragraphs 44 through 46 notes the practice from 2011 through 2016 where very few residential properties saw an increase in assessed values if they were not transferred. Of the years reported, these residential properties saw more than 10% of the group increase in only 2015.

These significant reductions in assessed values translated into significant annual reductions in residential property taxable values; indicating that the reductions in assessed values were great enough in many instances to correct past over-assessments. The report concludes that the action taken to lower

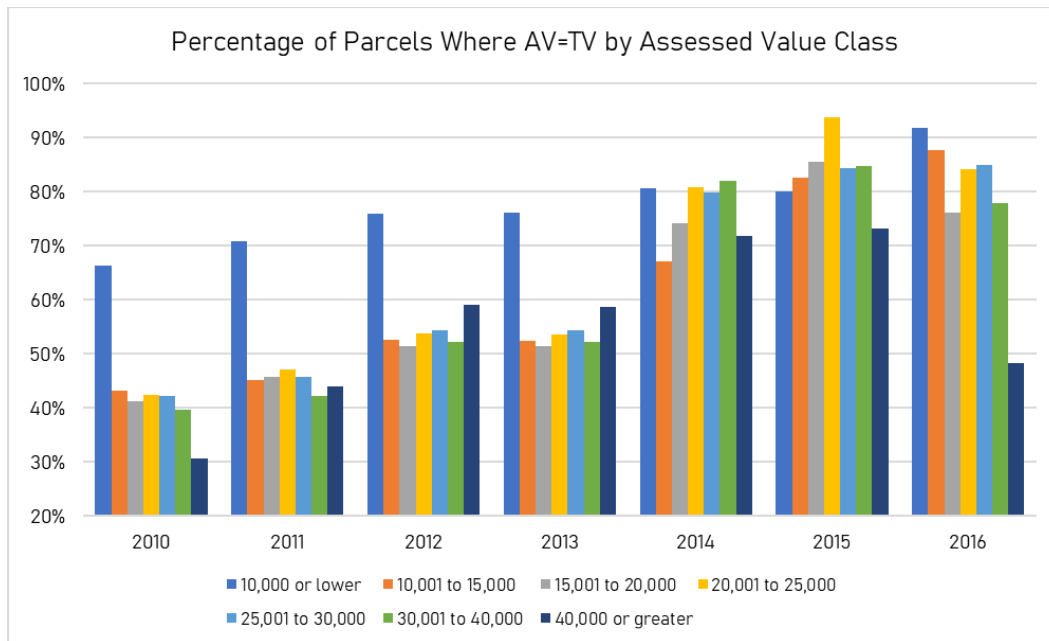
assessments from 2010 to 2016 effectively eliminated assessments over taxable values for 81% of residential properties that were not transferred in this period.

Additional context of these changes can help explain which properties were experiencing this relief and the pace of the correction.

Lower Valued Properties See Reductions

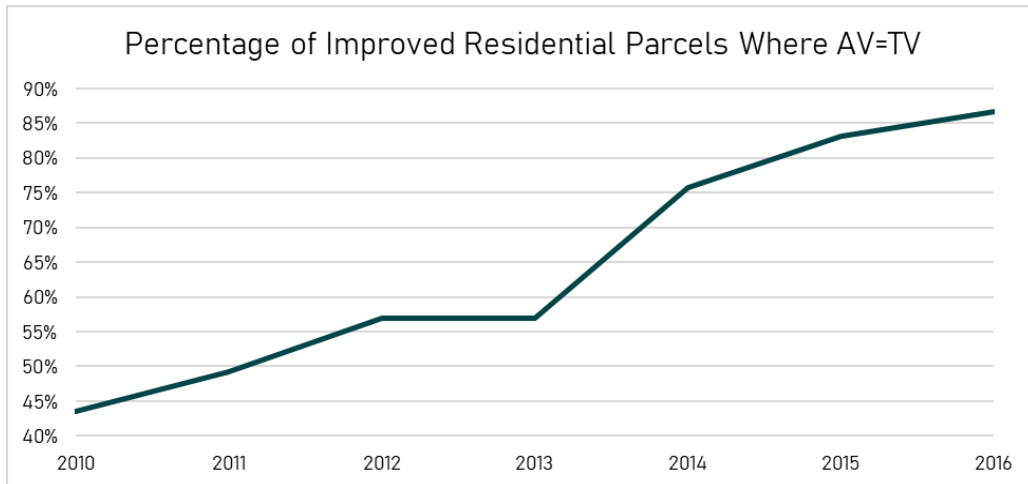
While, as the Stout report confirms, assessment and taxable values of residential properties were dropping consistently from 2010, it is significant to recognize that lower value properties experienced the most reductions and the greatest pace of reductions. Moreover, assessments were being lowered to such a degree that taxable values for many properties decreased, as evidenced by the large increase in the number of properties with lower assessed and taxable values. This shift accelerated dramatically in 2014.

The following charts display that history. The first chart shows the percentage of residential properties, within each value classification, that had taxable values equal to assessed value each year. It clearly indicates that the City was lowering assessments each year to at or below the prior year’s taxable value, with great impact upon the lowest valued properties.



Cumulative Residential Reductions Top 87% by 2017

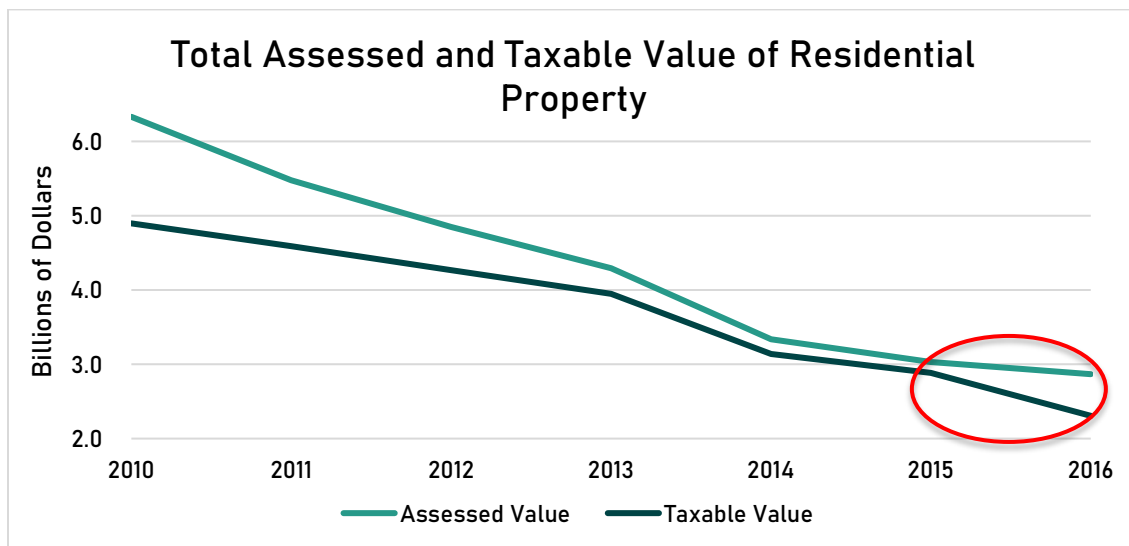
Accumulating the activity across all value classifications, the following graph shows the percentage of residential properties where taxable values equal assessed values. With the increase in 2014 and after, over 85% of all residential properties had no difference between taxable value and assessed value. This corresponds to the Stout report’s estimate.



Assessed Values and Taxable Values Cut in Half for Residential Properties

The following graph displays the dramatic impact these actions had on the total assessed values and taxable values of improved residential properties that were not transferred in this period. Assessed values were decreased from \$5.48 billion in 2010 to \$2.87 billion in 2016. These assessed value decreases had, as the Stout report noted, a “direct influence” on the property tax reductions since so many of the assessed values were changed to equal taxable values.

Further examination of the data reveals that taxable values continued to drop in 2016 while assessed values remained relatively flat. As the 2016 data in the first chart above shows, this is in part because the Mayor’s improved assessment practices made further corrections that particularly lowered values for properties with the lowest assessed values.



Stout’s report supports what the City had been doing for years, lowering assessments year after year in the years during the Recession and leading up to the bankruptcy filing in 2013. When Mayor Duggan was elected in 2014, he commenced an acceleration of the assessment process transformation and instituted

a citywide reappraisal. These moves accelerated the taxable value reductions, lowering taxable values of residential properties by over 26% in 2 years.

Many factors influence a property's taxes, including the market for the property and whether taxable values may be so much lower than its assessed value due to the length of time the property remained with the same owner. Assessment practices contributed to a lag in dropping assessments during the Recession, particularly for properties with lower values. Those properties were the first to see corrections as the most likely to be overassessed. As the Stout report notes, however, the properties that did not experience a reduction in their assessed values down to their taxable values may not have experienced an overcharge of property tax from a potential over assessment.

While there are areas that still need improvement in the Assessor's office, the data and charts in this report related to property assessments show the City of Detroit over a ten-year span took very drastic steps to reduce assessments in response to the Great Recession and those who benefitted the most were overwhelmingly homeowners with property values under \$25,000.

Considering the documented problems with assessment administration and valuation practices in Detroit, which led directly to State oversight of the Assessment Roll, we appreciate independent audits and reviews that not only reveal areas in need of improvement, but also highlight significant accomplishments that have addressed those longstanding problems. The Office of the Assessor has been dogmatic in efforts to fix problem areas and make changes.

ATT: Implementation Tracking of Responses to Forensic Audit of Citywide Residential Property Tax Assessment – Office of the Auditor General

OFFICE OF THE AUDITOR GENERAL

**Forensic Audit of Citywide Residential Property Tax Assessments
January 1, 2010 – December 31, 2020MAY 2022**

**Interim Audit Report of
Raymond A. Roth III, CPA, CFE, Stout Risius Ross**

Implementation Tracking of Departmental Responses

RECOMMENDATIONS (OFFICE OF THE ASSESORS DEPARTMENT RESPONSE(S)	ESTIMATED/ PLANNED IMPLEMENTATION DATE	CONTACT PERSON	CONTACT PERSON NUMBER
REF.		SPECIFIC RECOMMENDATION				
105.a.	Use all Available Budget	The Assessments Division has not used all of its available budget in any year of the Pre- or Post- Reappraisal Period. A lack of staffing resources was consistently cited among all employees of the Assessments Division I interviewed. However, the absence of staff is not completely from a lack of available budget, but rather from not fully using the budget that is available.	<p>The Office of the Assessor consistently attempts to fill vacancies as they occur through our division. The final decision on whether to fill a position or not does not solely rest with the Office of the Assessor, It should be noted that the period referenced by the report, the “Pre-Reappraisal Period”, from January 1, 2010 through December 31. 2016, includes a substantial period of time during which the City experienced substantial financial constraints, management control by a state appointed emergency manager, and a municipal bankruptcy. This recommendation, which assumes an appropriation is a mandate to spend, fails to provide this necessary context.</p> <p>The City builds its expenditure budget conservatively by assuming that all FTE will be on the payroll all year long. This ensures that the budget will not be over-extended in future years. Like other OCFO divisions, the Office of the Assessor works to recruit talented professionals throughout the year. The Office’s goal is to fill all its vacancies, but nonetheless has carried some vacant positions for part of the year.</p>	NA	NA	NA

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105.b.	Enhance Employee Recruitment and Retention	As stated above, the lack of staffing is not completely related to a lack of Assessments Division budget, but also the difficulties in recruiting and retaining employees. The Assessments Division, along with the City's Human Resources Department should develop processes that better recruit and retain employees to the Assessments Division. These processes should consider not only compensation related to other jurisdictions but also increased workloads compared to these other divisions, safety considerations for field reviews, opportunities for career advancement and other considerations related to overall job satisfaction	OCFO recognizes how valuable our employees are and implements strategies across the department to improve recruitment and retention. These strategies comprise robust department onboarding which includes an OCFO orientation and access to our New Hire Ambassador program; various employee engagement activities including monthly Learning with Leadership sessions and employee feedback sessions to help inform strategies to address Employee Engagement surveys; as well as a Mentor Program and divisional succession planning to ensure our employees understand their potential career paths. In addition, over the last several years the Office of the Assessor has taken specific steps to retain existing employees and to provide opportunities for advancement. Those steps include creating more professional titles at higher salaries, paying for both statewide and national certification of staff, and encouraging staff to become involved in the various local and national organizations dedicated to valuation.	NA	NA	NA

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105.c.	Evaluate Staffing Needs and Prioritization of Special Projects from City Leadership	Many of the Assessments Division's employees I interviewed identified special projects that originate from the Mayor's Office and/or City Council that further exacerbate the staffing shortage. The Deputy CFO/Assessor has demonstrated a solutions-oriented approach in complying with these requests but City Leadership may need to be better informed how these requests impact the overall mission of the Assessments Division and identify additional resources to assist in meeting their requests.	The requests for these projects come directly to the Deputy CFO/Assessor, not to staff. Work assignments take into consideration available resources and what projects are pending. The CFO is informed of special projects which may take some time and could impact normal operations and prioritization does occur.	NA	NA	NA

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105.d	Develop More Detailed Goals and Objectives	The Assessments Division has an overall goal and objective to accurately value properties within STC mandated timeframes. However, it has not developed sub-goals and objectives relating to the processes needed to achieve its overall goal and objective. Developing process related goals and objectives will allow for the creation of more specific policies and procedures that will help the Assessments Division maximize its efficiency and effectiveness.	The OCFO has an overall strategic plan. As a result of COVID, finalizing divisional business plans was put on hold. In the coming months, the Office of Assessor will finalize their FY23 Business Plan to identify: <ul style="list-style-type: none"> - Core Objectives: Stem from, and key to, the mission, vision, and values of OCFO. - Strategic Objectives: more specific objectives/ goals, which are consistent with the Core Objectives, specifying a desired result. - Risk Assessment: Identification and description of risks that could affect the achievement of Objectives, as well as the adequacy and effectiveness of current controls. - Strategic Initiatives & KPIs: divisional work products, projects, and processes which identify how the division will realize its goals and achieve/ support the Strategic Objectives. 	12/2022	Alvin Horhn	313-224-3040
105.e.	Create Formal Risk Assessments	The Assessments Division has not created any formal risk assessments. business operations for both the public and private sectors. Without developing risk assessments, the Assessments Division cannot effectively develop systems and processes to first identify its most critical vulnerabilities and then design processes and procedures to mitigate the risk.	A Risk Assessment will be included in the Divisional Business Plan for Office of the Assessor, as described in "d."	12/2022	Alvin Horhn	313-224-3040

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105.f.	Develop More Detailed Written Policies and Procedures	The Assessments Division's policies and procedures that were provided to me were lacking critical information to be effective. Most notably, the policies and procedures did not contain overall objectives, the employees/positions responsible for completing tasks and opportunities for review, oversight, and quality control. In addition, the Assessments Division should design policies that specifically relate to critical perceived risks so that it can design control activities that limit its exposure to those risks. To complement policies and procedures, the Assessments Division should also create visual flow charts of policies and procedures that demonstrate the sources and flow of information and the intermediary steps needed, and by whom, to achieve its valuations.	OCFO has an overarching Administrative Issuance System whereby all policies and procedures are prepared, issued, amended and administered. This system was established in 2018. Drafts of many of the Assess to Collect lifecycle (which includes property assessment) policies and procedures were drafted but not finalized. OCFO will work to finalize those Assess to Collect lifecycle policies and procedures to capture clear objectives, roles and responsibilities, policies, procedures and systems, including flowcharts and KPIs/ metrics.	6/2023	Alvin Horhn	313-224-3040
105.g.	Preserve Documents and Information that Support Certified Assessed Values	The Assessments Division's per parcel assessed values do not reconcile with the certified assessed values submitted to the STC. The Deputy CFO/Assessor represented that this is the result of timing differences between the certification and when this data was pulled. The Assessments Division should preserve all values that are certified to the STC as well as any additional support for those values and subsequent changes.	Beginning with the 2023 Tax Year, the Office of the Assessor will archive its active production database at the close of the March, July, and December Board of Review. As a result, any questions regarding the certified numbers can be referenced against that archived database.	12/2022	Alvin Horhn	313-224-3040

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106.a	Conduct Analysis of Annual Residential Parcel Review	The Assessments Division is tasked with reviewing at least 20% of residential parcels each year by City Council. The Assessments Division has represented that it is in compliance with this mandate, but I have not reviewed any documentation to verify this assertion. In addition, the Assessments Division is unaware of which properties, or even how many, are reviewed through field site visits as opposed to a desktop review using aerial imagery. The aerial imagery is identified as a key piece of technology to supplement staffing shortages, but it was also noted that for certain properties, especially the lowest value properties, this type of review increases the risk of over assessment by not allowing the identification of deteriorated housing quality. By understanding how many parcels are completed through a desktop review the Assessing Division can better determine its staffing needs per STC guidelines. In addition, the Assessing Division can also review the appropriateness of a desktop review as opposed to a field review with better understanding of the properties and locations that received the different type of review.	Documentation was provided to Stout which distinguishes those properties which were reviewed through the remote desktop environment and which ones were field reviewed by staff. Documentation was also provided that explains how we keep track of those parcels. The desktop review process used by the Office of the Assessor in Detroit is vital to our operations. Without it, we would need to increase our staffing complement considerably to complete statutory requirements. But admittedly, it less than optimal to establish the condition or effective age of a property using desktop review. Establishing the condition and effective age of a property are necessary steps in calculating the depreciation of the property. The depreciation if necessary to compute the Assessed Values. Those steps would require an appraiser to visit the property to make those determinations. In a city where the average age of a house is 83 years old, it is vital to make these calculations to ensure the valuation process is correct; however, we must balance available resources when determining when to conduct field reviews against the need to complete other statutory assignments.	NA	NA	NA

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106.b	Review Key Metrics and Ratios Used by the Assessments Division	The Deputy CFO/Assessor represented that the assessment-to-sales ratios are computed and reviewed periodically but has not provided those analyses despite a request made in December 2021. Analysis of this information could provide additional insight into the quality and efficiency of assessing operations	Michigan L- 4017, the 24 months Sales Study Ratio was provided to Stout for the tax years 2017 through 2020. We do not have the sale study ratio reports for tax years 2010 through 2016.	NA	NA	NA
106.c	Audit Missing PTA Documents	The Assessments Division relies on PTA's to verify and validate arm's length sales. However, it was also noted that there is concern that not all residents are aware of the need to file this document, or investors that choose not to. Conducting a sample of parcels identified as transferred from the county to records indicating whether a PTA was received can identify the incidents where a PTA has not been filed and consideration of any processes for follow-up if not filed.	The Office of the Assessor conducts a database comparison to match sales from the Wayne County Register of Deeds to the Property Transfer Affidavits (PTA) received in our office. Unfortunately, current state law doesn't require a property owner to file a deed and the penalty for not filing a PTA is minimal. There is an initiative at the state level which would require property owners to file a deed and would strengthen the penalty for not filing a PTA, an initiative which this office supports.	NA	NA	NA

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106.d	Review the Collaboration with Building, Safety Engineering & Environmental Department (“BSEED”) Regarding Incorporation of Permits into Assessing Activity	Much of the work that the Assessments Division conducts for individual properties on an annual basis is the update of changes to each property. Review of building permit data allows for the identification of major changes to properties. Accordingly, the OAG 2011 Performance Audit Report identified the need for better collaboration between BSEED and the Assessments Division, which was represented to have occurred. However, formal written processes for how the permit data is incorporated into Assessments Division’s operations and updates was requested but not provided.	Since 2018 permitting data maintained by BSEED has been placed in the open data portal maintained by DoIT for use by other agencies of the City of Detroit. The Office of the Assessor pulls the permitting information from the open data portal and uploads into our CAMA system. We do not have a formal SOP but will work to create one.	6/30/23	Alvin Horhn	313-224-3040
106.e	Conduct Analysis of Vacant Land	The Assessments Division records over 122,000 parcels identified as vacant land, which increased by more than 45,000 (60% increase) following the Reappraisal. Although it is widely recognized that the City contains numerous vacant parcels, an audit of these parcels to confirm that all of these parcels remain vacant could improve the overall accuracy of the Assessments Divisions records and identify updates needed to its processes.	The Office of the Assessor is aware of the need to conduct a land study of unimproved parcels in the City of Detroit. A land study would address the concern expressed in this finding. The need to conduct such a study however needs to be balanced against existing resources and current statutory obligations. With current limited resources, it cannot be done at this time, but will be included in future priority discussions.	NA	NA	NA