

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE N1058(B)
INDIANAPOLIS, IN 46204
PHONE (317) 232-3777
FAX (317) 232-8779

TO: Jack Ross, Executive Director, Legislative Services Agency
FROM: Brian E. Bailey, Commissioner 
RE: Exemption Audit Report
DATE: September 17, 2010

Overview

This is a report of the audit of exempt applications conducted by the Department of Local Government Finance ("Department"). The applications audited were those filed in 2009 and approved by each county's property tax board of appeals (PTABOA). The 2009 filing year would normally be considered the "off year" of filing for the majority of entities during the two (2) year exemption period. However, during the 2009 Special Session of the Indiana General Assembly, there was a significant change to the property tax exemption process. Per HEA 1001-2009 (SS), effective upon passage, an application for exemption is no longer required every two years if the exempt property is tangible property owned, occupied, and used by a person for educational, literary, scientific, religious, or charitable purposes (IC 6-1.1-11-4). It is anticipated that this will significantly reduce the number of exemption applications filed.

For the 2009 exemption audit, the total number of applications audited by the Department was 931 out of 1,100 applications (~85% of all applications were audited). Applications were not audited if the county had previously disallowed them. Please note that this represents the number of **applications** and **not** the number of **entities**. Some entities may have multiple applications.

Statutory Authority

According to IC 6-1.1-11-8, the Department is required to annually audit approved applications, which should be forwarded to the Department on or before August 1. Under this statute, the Department may deny an exemption if the Department determines the entity is not tax exempt under State law.

Statutorily, the Department shall file an annual report by August 1 to the Executive Director of the Legislative Services agency. The report must include the following:

- #1 the number of exemption applications forwarded;
- #2 the number of exemption applications subjected to field investigation by the Department;
- and
- #3 the number of exemption applications denied by the Department.

Procedure

Generally, the following procedures were followed by the Department in performing a review of exemption applications submitted pursuant to IC 6-1.1-11.

Exemption applications received by the Department were sorted by county, then logged and counted. Counties not submitting applications for the 2009 assessment year were contacted to determine if any applications had been filed with the Property Tax Assessment Board of Appeals (PTABOA) of the respective county.

- a. If none had been filed with the PTABOA, the county was deemed to be in compliance for the year.
 - b. If applications had been filed with the PTABOA, the county was reminded to forward copies to the Department pursuant to IC 6-1.1-11-8(a).
 - c. Counties that continued to fail to provide copies of the applications were called upon by field representatives of the Department and again reminded of the statutory requirement.
2. The counties have been required to submit electronically formatted spreadsheets of the applications reviewed and approved by the county PTABOA. Counties not submitting spreadsheets have been reminded of this requirement.
3. The Department completed a desk audit of the approved exemption applications for the majority of counties that had submitted data or applications.
4. For each county, the Department staff member (“auditor”) conducted an initial review to determine the accuracy and completeness of the application and noted inconsistencies. The Department has retained within its files the auditors’ comments with regard to compliance with filing requirements.
5. Further in-depth reviews were made by verifying the name of the organization applying, the type of organization (e.g., religious, charitable, and educational), the exemption classification, the action taken by the PTABOA, and the assessed value exemption amount. The Department also reviewed documents attached to the applications (e.g., articles of incorporation, charters, balance sheets, legal descriptions) used to support the claim for exemptions.
6. In cases where the applications and supporting documents were insufficient for the auditor to understand the action taken by the PTABOA, Department field representatives contacted the offices of the county assessors for clarification.

Findings

Overall, the audit found that the exemption applications approved at the local level met the criteria for exempt status. The Department did not reverse (deny) any of the PTABOA decisions on the 2009 exemption applications.

The Department found two applications to be questionable with respect to the filing date. The Department will follow-up with the counties and advise the County Assessor and/or the PTABOA of the exemption requirements.

The following are some of the reasons exemptions may be questionable, but not necessarily denied or reversed:

- Applications filed within one week of the due date to allow for mail service.
- Applications filed under incorrect statute, where the Department was able to determine that there was statutory authority for an exemption, but the relevant statute was not cited.
- The PTABOA failed to fully complete the “Action by the County Property Tax Assessment Board of Appeals” page of the exemption application.
- Applications that were not 100% complete and the incomplete items were deemed immaterial or the materials were retained by the county in an effort to minimize photocopying.
- Applications submitted without an attached property record card.

For those applications that require further review or action, in some cases, the Department will be holding hearings under IC 6-1.1-11-8(b). These reasons include:

- The property did not meet the exemption qualifications.
- Applications were not dated; hence, the timeliness of the filings cannot be determined.

NOTE: Nearly all counties (88 of 92) were audited. Personnel and assignment responsibilities and software conversion by counties, temporarily limiting availability of records, are among the reasons for the non-performance of audits in four counties.

Future Audits

As previously noted, the Department anticipates the changes from HEA 1001- 2009 (SS) and the filing requirements will decrease the number of exemption applications filed on an annual basis, particularly for the “even” number years (e.g., 2010 - year one of the prior two year cycle).

Please contact me, or Barry Wood, the Assessment Division Director, at 232-3762 or Bwood@dlgf.in.gov if you have any further questions or if we can be of additional assistance.