



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

September 7, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of PILOT Collection Process, Audit 10-01

Dear Mayor Littlefield and Council Members:

On October 21, 2010 the Internal Audit Division released an audit on the PILOT Collection Process. We performed certain procedures, as enumerated below, with respect to activities of the Finance department in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 10-1 were that:

1. All current PILOT agreements have been accounted for and billed to the taxpayer. However, we noted no property tax/PILOT payments have been made since 1991 on a parcel of property owned by Chattanooga Housing Authority and leased to RiverCity Company;
2. The in lieu of tax payments collected by the County Trustee were calculated in accordance with the PILOT agreements, with one exception. Further, we were unable to determine if all in lieu of tax payments collected by the City Treasurer were properly calculated because all original PILOT agreements could not be located; and,
3. Property associated with an expired PILOT agreement appears to be timely returned to the property tax roll.

The audit contained six (6) recommendations that addressed the audit's findings. Based on the review performed, we concluded that five (5) recommendations were implemented and one (1) recommendation was not implemented.

Recommendations Implemented [1, 2, 3, 4, 5]

We recommended (Recommendation 1) the Finance department consult with the City Attorney to determine the total PILOT/property taxes, interest and penalty due on the property and proceed immediately with collection efforts. Further, if collection efforts fail, we recommended the Finance department discuss with Chattanooga Housing Authority the possibility that they exercise their legal options to repossess the property.

Finance department staff consulted with the City Attorney to determine course of action needed regarding the Riverset Apartments. As a result, RiverCity Company paid \$40,578 to the City for years 2003 through 2010.

We recommended (Recommendation 2) the Finance department develop policies and procedures that ensure PILOT billings are accurate. The procedures should include annual review of calculations performed by the County Trustee along with a comparison to the PILOT agreements and past tax billings. Also, we recommended the Finance department address the billing issues of United Packers with the County Trustee and County Assessor's office. Further, we recommended future PILOT agreements be limited to a single agreement per organization, per location.

We recommended (Recommendation 3) the Finance department request organizations, with PILOT payments based on revenues, expenses and/or assets, submit their Independent Audited Financial Statements with future PILOT payments, along with a detailed reconciliation, when necessary. Further, we recommended the Finance department institute procedures to review and document the accuracy of those PILOT calculations.

Based on our review, the Finance department has developed procedures to calculate and confirm the County Trustees PILOT agreement calculations. Also, organizations (such as EPB and CHA) are required to submit detailed calculations and support documents along with the PILOT payments. The Treasurer's office has implemented procedures to review such documentation for accuracy.

During the audit, we determined an error had occurred in the tax billings for United Packers/Coca-Cola Bottling Company. The Finance department met with the County Tax Assessor and confirmed United Packers had been under-billed. The City requested the taxpayer be re-billed for the underpayment; but as of the date of this report, the County Trustee's office has not billed the taxpayer.

We recommended (Recommendation 4) the Finance department consult with both Chattanooga Housing Authority and the City Attorney to determine which housing projects are governed by each cooperation agreement. Further, we recommended the PILOT calculations be modified in accordance with those findings and collection efforts be initiated.

We recommended (Recommendation 5) the Finance department (with the assistance of the City Attorney) determine the applicable interest and penalties due from Chattanooga Housing Authority and collect all past due monies immediately. Further, we recommended the Finance department institute procedures to ensure such past due amounts are more timely identified and collected.

Finance department consulted with both Chattanooga Housing Authority and City Attorney. After the audit, CHA located three additional cooperation agreements between the City and CHA. After review of the five agreements, CHA re-calculated the in lieu of tax payments for each property from 2000 to 2009.

CHA's calculations indicate a net overpayment of \$10,188. CHA's calculations did not include interest and penalties. Finance staff reviewed and agreed with CHA's calculations. CHA applied the credit to its current year PILOT payment.

As noted previously, Finance department has implemented procedures to review and confirm PILOT calculations. The procedures include steps to ensure past due amounts are timely identified and collected.

Recommendations Not Implemented [6]

We recommended (Recommendation 6) the Finance department (along with the City Attorney and Chattanooga Housing Authority) develop a comprehensive PILOT agreement that would incorporate terms of in lieu of tax payments for any properties that are not governed by the 1950 and 1968 PILOT agreements. Alternatively, we recommended a (superseding) single PILOT agreement that includes the properties addressed in the 1950 and 1968 agreements along with any other current or future properties.

The Finance administration consulted with the City Attorney regarding CHA's PILOT agreements. Based on discussions, no comprehensive PILOT agreement has been developed.

We thank the personnel in Finance department for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Audit Committee Members
Daisy Madison, City Finance Officer
Michael McMahan, City Attorney