

# LEGISLATIVE AUDIT DIVISION

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## **Addition of New Construction on Property Tax Rolls (23P-05)**

### **Department of Revenue**

**Audit Objective** (*what the audit intends to accomplish or questions auditors will answer*):

1. Does the Department of Revenue identify and assess new construction on residential and commercial property consistently and in a timely manner?

**Audit Scope** (*the boundary of the audit & subject matter auditors will assess*):

This audit is focused on department processes for identifying new construction and adding new construction value to property tax rolls. Our work will focus on residential and commercial properties as these property types accounted for about two-thirds of all property taxes in 2022 and contain the majority of new construction. The timeframe for this audit includes the last three reappraisal cycles for these property types (calendar years 2017-2022). Audit work will include:

- Reviewing statute, rule, and best practices.
- Reviewing department policies, procedures, and goals.
- Interviewing other states and counties in other states.
- Interview private companies that deal with new construction or permitting.
- Surveying field staff about their processes for identifying and assessing new construction.
- Surveying financial staff at counties, cities, and towns in Montana, asking about identifying new construction in their jurisdiction.
- Observing field staff processes for identifying and assessing new construction value.
- Determining the timeliness of assessing new construction, average value of new construction, and prevalence of new construction across the state.
- Examining how the department leverages its current resources to identify and assess new construction.
- Performing a cost benefit analysis for methods to further identify new construction.

**Scope Exclusions** (*areas that will not be included in scope and why*):

We will not focus on the general assessment processes for all types of property. Instead of examining the accuracy and consistency of general assessment, we will examine the consistency of processes that result in new construction value being added to property tax rolls. The Department of Revenue uses building permits to help identify new construction. These permits are administered by The Department of Labor and Industry (DLI) as well as certain cities, towns, and counties across Montana. The Department of Revenue is not responsible for the administration, accuracy, or enforcement related to permits. Therefore, we will not include DLI, counties, or other external entities as audited entities in this examination. We will interview these entities to understand their processes and we will examine the reliability of permit information provided to the Department of Revenue.