



**Mecklenburg County
Department of Internal Audit**

Office of the Tax Assessor
Audit Report 1163
April 26, 2013

Internal Audit's Mission

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

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MECKLENBURG COUNTY Department of Internal Audit

To: Bobbie Shields, General Manager and Interim Tax Assessor

From: Joanne Whitmore, Director of Internal Audit

Date: April 26, 2013

Subject: Tax Assessor Report 1163

The Department of Internal Audit has completed its audit of the Office of the Tax Assessor within the Land Use and Environmental Services Agency. The audit evaluated whether internal controls effectively manage key business risks inherent to system access; registered motor vehicle valuation; and the appeal process for registered motor vehicle, real estate, individual personal property and business personal property.

Internal Audit interviewed key personnel, observed operations, reviewed procedures and other documents, and tested registered motor vehicle assessments and appeals activity from July 1, 2008 through October 31, 2010. Due to limited availability of documentation, the scope of formal and informal real estate, individual personal property and business personal property appeals was limited to activities between January 1, 2010 and October 31, 2010. Revaluation occurred after the audit scope and those appeals were not part of testing. Due to procedural and staff changes, calendar years 2010 and 2011 were subjectively selected for system access testing.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, the risks associated with processes reviewed were managed to an acceptable level; however, some exceptions were noted. NCPTS and AssessPro system access management was insufficient. The Assessor's Office has not formally documented some registered motor vehicle valuations, property appeals and information system access procedures and there are no formally documented policies for these activities. Further, some appeals were processed although they were received past the deadline established by the Machinery Act. Supporting documentation for some valuations, adjustments and appeals was not always evident or sufficient. Moreover, registered motor vehicle valuation and

assessment reviews are insufficient. Last, management oversight was not evident in some cases and there was a separation of duties concern in which staff both created and approved property adjustments.

ISSUES

1. The Assessor's Office does not have formally documented policies and procedures for some key business activities.
2. Some appeal processes may not ensure compliance with the North Carolina Machinery Act.
3. Registered motor vehicle valuations are not adequately reviewed prior to billing.
4. The Assessor's Office does not ensure all assessed registered motor vehicles are processed for billing.
5. The Assessor's Office does not have adequate separation of duties for property adjustments.
6. Management does not document its review and approval of real property valuation changes.
7. Supporting documentation for some valuations and adjustments is not always evident or sufficient.
8. The Assessor's Office has insufficient controls over system access management.

These issues, as well as recommendations and management responses, are presented in detail in the following pages. Internal Audit will conduct a follow-up review at a later date to verify that recommendations are implemented and working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

c: Harry Jones, County Manager
Michelle Lancaster, General Manager
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Board of County Commissioners
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BACKGROUND

The Office of the Tax Assessor (the “Assessor’s Office”) is a business unit of Mecklenburg County's Land Use and Environmental Services Agency.¹ The Assessor’s Office is responsible for listing, appraisal and assessment of all taxable property within Mecklenburg County in accordance with North Carolina General Statute §105, Subchapter II (the “Machinery Act”). The Machinery Act purpose is to provide the mechanism for “the listing, appraisal, and assessment of property and the levy and collection of taxes on property by counties and municipalities.”

Property Tax

All property within the County is taxable unless specifically exempted or excluded by the Machinery Act. Property tax provides the County’s largest source of operating revenue. The total value of all taxable property is the County’s property tax base, which can be broadly classified as real property and personal property. Personal property subclasses have varying rules for appraisal and assessment and include:

- Registered Motor Vehicles (RMV) – e.g., automobiles, trailers
- Individual Personal Property (IPP) – e.g., boats, airplanes
- Business Personal Property (BPP) – e.g., machines, computers

The property’s assessed value (market value) represents the value subject to the property tax rate approved by the Mecklenburg Board of County Commissioners (the “Board”). All property is assessed as of January 1 of the year taxes are due.

Management Information Systems

The North Carolina Association of County Commissioners (NCACC) owns and manages a fully integrated tax software system called the NCACC Collaborative Property Tax System (NCPTS). The system supports property database management, billing and collections. The system also provides support for property assessment and tax appeals, refunds and other transactions related to property tax administration. Several counties, including Mecklenburg County, use NCPTS. Each taxable property has a record, or abstract, in NCPTS that is used each year to record the property’s value and generate the property tax bill.

The table below provides the volume of abstracts for fiscal years 2009 through 2011, as well as the associated taxable values.

NCPTS ACTIVITY								
Tax Year	REAL ESTATE		IPP		BPP		RMV	
	Abstracts	Taxable Value	Abstracts	Taxable Value	Abstracts	Taxable Value	Abstracts	Taxable Value
2009	337,821	\$81,576,743,163	16,332	\$197,007,896	32,065	\$8,268,834,215	679,369	\$6,464,721,813
2010	339,681	\$82,691,124,753	14,660	\$151,415,873	45,795	\$8,390,539,501	679,423	\$6,412,516,041
2011	340,538	\$97,287,386,112	16,090	\$159,609,759	33,531	\$8,109,459,775	693,130	\$6,765,447,781

Source: Tax Assessor data, unaudited

¹ As of July 1, 2013, the Assessor’s Office will be a standalone business unit separate from LUESA.

The Assessor's Office also uses AssessPro, a computer-assisted mass appraisal system, to help appraisers establish real estate values for property tax calculations. AssessPro includes real property valuation models, document and photograph storage and an integrated sketch application.

Management authorizes access to NCPTS and AssessPro systems. Authorized users are provided unique user identifications (UserID) and establish their own unique passwords.

Registered Motor Vehicles

Registered motor vehicles include any motor vehicle that maintains an active North Carolina registration. Registering a new vehicle or renewing a current registration with the North Carolina Department of Motor Vehicles (DMV) constitutes a listing for property taxes.

The DMV sends a monthly electronic data file of approximately 60,000 renewed or newly registered vehicles in Mecklenburg County registered in the two months prior. The Assessor's Office staff validates and uploads the DMV data into NCPTS, which creates RMV abstracts in the system.

The NCPTS assigns the majority of vehicle values from data provided by TEC Data Systems (TEC), a private company that provides vehicle pricing guides and valuation services to local governments. Nearly all 100 counties in North Carolina utilize TEC to determine vehicle values. If the value cannot be determined using TEC data, the Assessor's Office uses other references, such as the National Association of Automotive Dealers (NADA) or a vehicle's bill of sale.

Approximately three months after a taxpayer registers a vehicle, the Assessor's Office issues an individual tax bill based on the tax rate in effect on the first day of the month in which the registration was issued. Prior to billing, the Assessor's Office performs pre-bill edit checks on a selected list of vehicle types to check for valuation reasonableness.²

Appeal Process

When a taxpayer believes the County's valuation does not reflect his or her property's market value, or the property is not subject to taxation, or the property qualifies as a special classification of property, the taxpayer has a statutory right to appeal within established time periods.

The taxpayer's first step in the appeal process is to file an informal written appeal with the Assessor's Office. If an agreement is not reached, the taxpayer may formally appeal to one of the County's review boards. The reviews boards are independent bodies appointed by the Board and are distinct and separate from the Assessor's Office.

The Motor Vehicle Valuation and Review Board (MVVRB) consists of five Board-appointed citizens who hear and decide upon all registered motor vehicle appeals. The Board of Equalization and Review (BER) is made up of fifteen Board-appointed citizens who hear and decide upon all real estate, IPP and BPP appeals. If a taxpayer is dissatisfied with either the MVVRB or BER decision, he or she may file an appeal to the State Property Tax Commission.

² Per Session Law 2005-294, House Bill 1779, the DMV will begin invoicing and collecting vehicle property taxes and distributing them to the appropriate counties.

Regardless of the type of appeal, the taxpayer has the burden to prove the valuation, penalty or situs as determined by the Assessor's Office is incorrect or that the property was taxed in error. When challenging the valuation, the taxpayer must prove that the assessed value substantially exceeds the property's market value.

Registered Motor Vehicle Appeals—To file an RMV appeal, the taxpayer has to notify the Assessor's Office within 30 days from the date of the original tax bill. The taxpayer must also pay the full amount of tax when due. If successful in appeal, the taxpayer will receive a refund.

Other Property Appeals: Real Property—To file a real property appeal, the taxpayer must file with the Assessor's Office prior to the BER's adjournment, unless the final notice of value was mailed to the taxpayer fewer than 15 days prior to the BER's adjournment. In that event, the appeal may be filed within 15 days after the notice of value was mailed.

Other Property Appeals: Individual Personal Property and Business Personal Property—To file an IPP or BPP appeal, the taxpayer must notify the Assessor's Office within 30 days after the date of the initial notice of value. If no previous notice of value has been created, the property tax bill serves as the official notification of value.

ISSUES, RECOMMENDATIONS AND RESPONSES

County Manager's Overall Response to the Recommendations

As indicated in the first page of this audit report, this audit was undertaken by the Internal Audit Department prior to the 2011 revaluation and, therefore, did not include appeals associated with the 2011 revaluation. In addition, the audit occurred prior to the 2011 revaluation review conducted by Pearson's Appraisal Services and, therefore, before the Pearson's review report was provided to the Board of County Commissioners, the County Manager and the Assessor's Office. This audit also occurred prior to the Board adopting an action plan in response to the findings and recommendations from the review conducted by Pearson's Appraisal Services. Finally, the audit was conducted prior to the resignation of the previous County Assessor who was managing the Assessor's Office at the time of this audit. Although the previous County Assessor received the audit findings and was developing a management response related to the audit findings, the management response contained in the audit report is provided by the Interim County Assessor. In this regard, the management response for each issue identified in the audit report is appropriate and reflects the changes being made in the Assessor's Office structure and operation that are the result of implementing the Board's Action Plan.

Issue 1: The Assessor's Office does not have formally documented policies and procedures for some key business activities.

Risk Observation

While the Assessor's Office has informal procedures, guidance manuals and other information for staff relevant to RMV valuations, property appeals and information system access, it has not formally documented those procedures. Furthermore, there are no formal, documented policies for these activities.

Policies and procedures are important control activities to help ensure management's directives are carried out while mitigating risks that may prevent the organization from achieving its objectives. Policies and procedures include a range of activities, such as approvals, authorizations, verifications, reconciliations, operational reviews, asset security and separation of duties.

Recommendation

Internal Audit recommends the Assessor's Office develop and implement formal, documented policies and procedures for RMV valuations, property appeal processes and information system access. The policies and procedures should include, at a minimum:

- a. applicable State statutes
- b. applicable County policy and procedures
- c. staff roles and responsibilities
- d. assumptions, criteria, methods, processes, techniques and documentation requirements
- e. professional training requirements
- f. internal and external stakeholder communication requirements
- g. frequency of policy and procedure reviews and updates

Further, management should ensure staff is trained on the policies and procedures.

Management Response

Agree – The Assessor’s Office is implementing the recommendations above in formatting or revising existing policy and procedure documents and any future documents into a consistent formalized format. Some procedures and policy documentation may come out of independent review currently ongoing as well as the Program Review of some processes. The Assessor’s Office will work with management analysts to create more formalized training and tracking to ensure all staff has participated in and is trained on policies and procedures relevant to their position. Training will begin after the policy and procedure documents are finalized. Mecklenburg County is in the process of hiring a new Assessor who will be charged with complying with this recommendation. The estimated date of completion is October 2013.

Issue 2: Some appeal processes may not ensure compliance with the North Carolina Machinery Act.

Risk Observation

The North Carolina Machinery Act requires the taxpayer to submit his or her appeal by a specific deadline but the Assessor’s Office processed some Other Property and RMV taxpayer appeals received after the deadline established by the Machinery Act.

Exceptions to North Carolina Machinery Act Requirements				
	Property Type	Appeal Type	Sample Exceptions	Percent Exception
January 1, 2010 – October 31, 2010	IPP	Formal	2 of 56	4%
	Real Estate	Formal	1 of 56	2%
	Real Estate	Informal	4 of 72	6%
July 1, 2008 – October 31, 2010	RMV	Formal	2 of 52	4%
	RMV	Informal	4 of 51	8%

Accepting and processing appeals beyond the established deadline may violate statute and could negatively impact the County’s tax revenues.

In addition, of 56 Other Property formal appeals and supporting documentation reviewed from the period of January 1, 2010 to October 31, 2010, two real estate appeals or 4% were missing the taxpayer’s appeal form or written appeal. Of 72 Other Property informal appeals and supporting documentation reviewed, seven real estate informal appeals or 10% were missing the taxpayer’s appeal form or written appeal. Yet, the Machinery Act requires the taxpayer to submit his or her appeal in writing to the Assessor’s Office before a review can take place. Without complete supporting documentation, management cannot ensure they are in compliance with the Machinery Act.

Recommendation

Internal Audit recommends the Assessor's Office re-emphasize to staff key Machinery Act requirements and related procedures. Management should conduct routine reviews of the appeals and supporting documentation to ensure compliance.

Management Response

Agree – The Assessor's Office will re-emphasize to staff key Machinery Act requirements and related procedures. The estimated completion date is mid-June 2013. Routine review of the real property appeals is currently in place with the appeal process implemented in the Appeals Module of NCPTS. An appeal missing documentation will not be docketed. The Assessor's Office may accept an appeal and the risk associated with accepting it because of changing timelines, processes or the Assessor's discretion to accept untimely appeals. Before an untimely appeal is allowed to be heard, the property owner must present evidence supporting acceptance of their untimely appeal. If an untimely appeal is allowed, then the regular appeals hearing process is used to weigh the merits of that actual appeal.

The Board of County Commissioners is in the process of appointing a new Board of Equalization and Review who will be charged with, among other things, reviewing and modifying the overall appeals process. Their work should be completed by mid-June 2013.

Issue 3: Registered motor vehicle valuations are not adequately reviewed prior to billing.

Risk Observation

There is no independent, detailed review of a representative sample of the population of all abstracts to ensure valuations are appropriate. Further, the pre-billed edits subject to review were not carried out for 14 of 20 months or 70% of the months sampled. The remaining six months did not have evidence that all vehicles included in the pre-bill edit check were reviewed.

Recommendation

Internal Audit recommends the Assessor's Office expand the scope of its pre-billing edits to include an independent, detailed review of a representative sample of the population of all abstracts processed. In addition, management should implement procedures to ensure RMV review activities are conducted as intended.

Management Response

Agree – The time period reviewed included transition into the new NCPTS system, as well as the reorganization of departments and responsibilities. Pre-billing edits have been conducted each month but were not consistently documented or robust. The Assessor's Office has revised its process of monthly pre-billing edits for RMV to include a random sampling of records, as well as a review of Public Service companies. All pre-billing edit documents and reconciliation reports are printed and retained. Future processes will change as the responsibility with the changeover of RMV to the State Vehicle Tax System (VTS) beginning in March 2013. Additionally, Mecklenburg County is in the process of hiring a new Assessor who will be charged with assuring compliance with this recommendation.

Issue 4: The Assessor's Office does not ensure all assessed registered motor vehicles are processed for billing.

Risk Observation

The Assessor's Office does not have a reconciliation process in place to ensure the total number of vehicle registrations received from DMV were properly processed for billing or received other necessary actions. As a result, billing discrepancies may not be detected.

Recommendation

Internal Audit recommends the Assessor's Office establish a reconciliation process to ensure all DMV vehicle registrations are properly processed and accounted for. Management should monitor the reconciliation process and make certain identified variances are resolved.

Management Response

Agree – Currently, the valuation system does not have a way to reconcile the RMV load to the billing based on a count of exempted (not billable) and voided records, nor the number of “adds” after the load and prior to billing. These reports will likely change due to the implementation of the State VTS system. The Assessor's Office will establish and document a reconciliation process for the new VTS system as we become more familiar with the structure of the new system. Additionally, Mecklenburg County is in the process of hiring a new Assessor who will be charged with complying with this recommendation. Target date for establishing a reconciliation process is September 2013.

Issue 5: The Assessor's Office does not have adequate separation of duties for property adjustments.

Risk Observation

Due to permissions assigned in NCPTS, current roles allow a user to have both creator and approver rights. Twenty-four staff members have the ability to both create and approve property valuation adjustments in the NCPTS system. Ninety IPP/BPP adjustments, 752 real estate adjustments and 414 RMV adjustments made during the audit period were created and approved by the same user.

In August 2009 management instructed staff to use a different creator and approver for all adjustments. Yet, 36 IPP/BPP adjustments, 208 real estate adjustments and 24 RMV adjustments were created and approved by the same user after the August date.

The lack of adequate separation of duties increases the risk for unauthorized adjustments, undetected errors and fraud.

Recommendation

Internal Audit recommends the Assessor's Office work with the NCPTS vendor to determine whether the system can be modified to separate the creator and approver rights for property adjustments. Once modified, management should provide oversight to maintain the proper separation of duties between the creator and approver. If system rights cannot be adequately segregated, management should implement appropriate compensating controls.

Management Response

Agree – Mecklenburg County is in the process of hiring a new IT Program Manager by June 2013 who will be charged with complying with this recommendation; especially assuring that proper controls are in place to facilitate separation of duties.

Issue 6: Management does not document its review and approval of real property valuation changes.

Risk Observation

Although management indicated they perform reviews and approvals prior to billing of real property valuation changes made in AssessPro, they do not document the review as evidence it occurred. As a result, there is no way to validate the review took place and the valuation changes were authorized.

Recommendation

Internal Audit recommends the Assessor's Office document their review and approval of all real property valuation changes.

Management Response

Agree – We are in the process of developing “reason codes” which will be added to AssessPro to document reasons for valuation changes. The estimated completion date is June 2013. As part of the AssessPro upgrade, we will request improvement to system documentation of value changes and their related approvals. Additionally, Mecklenburg County is in the process of hiring a new IT Program Manager who will be charged with complying with this recommendation. The AssessPro upgrade effort is expected to last eighteen months from its inception on February 1, 2013.

Issue 7: Supporting documentation for some valuations and adjustments is not always evident or sufficient.

Risk Observation

Several valuations and adjustments sampled lacked sufficient supporting documentation and/or NCPTS system notes to help management ensure they were appropriate and adequately supported. For example, there were no system notes for some valuations to indicate the resource and/or other criteria used to determine the vehicle's value. Insufficient supporting documentation or notes may increase the risk of inappropriate or inaccurate valuations or adjustments.

Unsupported Valuations and Adjustments			
Sample Source	Activity	Sample Exceptions	Percent Exception
RMV Valuation	Valuations	9 of 73	12%
RMV Formal Appeal	Valuation Change	3 of 52	6%
Real Estate Formal Appeal	Valuation Change	3 of 56	5%
Real Estate Informal Appeal	Valuation Change	2 of 72	3%
BPP Adjustment	Adjustments	11 of 71	15%
IPP Adjustment	Adjustments	5 of 71	7%
Real Estate Adjustment	Adjustments	12 of 71	17%

Recommendation

Internal Audit recommends the Assessor's Office re-emphasize to staff the importance of retaining adequate supporting documentation and consistently providing and maintaining detailed system notes for valuations and adjustments in the proper place within the respective system. In addition, management should routinely review related valuation and adjustment supporting documentation and notes.

Management Response

Agree – Management will re-emphasize the importance of scanning all documentation to the abstract prior to approval. The estimated completion date is August 2013. Management routinely reviews a random sampling of adjustments for all employees to assure compliance and to be used as part of the mid-year and annual performance review process.

Issue 8: The Assessor's Office has insufficient controls over system access management.

Risk Observations

The Assessor's Office does not have a process to effectively manage NCPTS and AssessPro system access. Without appropriate system access management, unauthorized persons may gain access to systems and data.

- A. There were multiple instances where staff has inappropriate system access.
- Four terminated staff access sampled had enabled UserIDs in both NCPTS and AssessPro. As a result of the audit, access for all four terminated staff has since been deactivated.
 - One user who could not be identified as a County staff member, vendor or contractor had an enabled NCPTS UserID with system administrator rights during the time of review giving them the ability to make system-wide changes, such as disable user accounts, change passwords and delete taxpayer abstract notes necessary to support the valuations and adjustments. As a result of the audit, the user has been deactivated.
 - One staff had two enabled UserIDs in NCPTS.
 - Six UserIDs were assigned to BSSA-IT staff with one having two UserIDs and four UserIDs also had NCPTS administrator rights. There was also one enabled generic UserID.

- B. The Assessor's Office management does not consistently document its authorization of user access to NCPTS and AssessPro. Rather, some requests are verbally made to the Assessor's Office information technology staff.
- C. The Assessor's Office does not evidence its annual review of user access and authorizations to ensure access is appropriate based on staff's job duties.

Recommendations

Internal Audit recommends the Assessor's Office:

- A. Restrict NCPTS and AssessPro to only those with a valid business purpose. In addition, each staff should only have one unique UserID assigned and the generic UserID should be deactivated.
- B. Require all system access requests to be documented and formally approved.
- C. Review on an annual basis user access rights and authorizations for NCPTS and AssessPro, and certify, in writing, as to their correctness and appropriateness.

Management Response

Agree – As previously mentioned, Mecklenburg County is in the process of hiring a new IT Program Manager who will be charged with complying with this recommendation. The person should be hired by June 1, 2013 and will immediately begin to review controls necessary to assure authorizations are properly managed.