



**Mecklenburg County
Department of Internal Audit**

County Assessor's Office
Real and Personal Property Discovery
Report 2165

September 16, 2022

Internal Audit's Mission

To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.

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MECKLENBURG COUNTY
Department of Internal Audit

To: Ken Joyner, Director and Assessor
County Assessor's Office

From: Terry Thompson, Director
Department of Internal Audit

Date: September 16, 2022

Subject: County Assessor's Office Real and Personal Property Discovery Report 2165

The Department of Internal Audit has completed its audit of the County Assessor's Office Real and Personal Property Discovery process to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel, reviewed and evaluated policies, procedures, and other documents, observed operations, and tested various aspects of the process from July 1, 2018 through June 30, 2021.

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, key risks inherent to the Real and Personal Property Discovery process were managed to an acceptable level; however, opportunities exist to improve the operation of some control activities.

RISK OBSERVATION SUMMARY

The table below summarizes the risk factors and observations identified during the audit, grouped by the associated risk factors and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Compliance Risk	●	●	●
2.1 Document Storage 2.2 Desk Audits			
3. Valuation Risk	●	●	●
No risk observations noted			
4. Human Resources Risk	●	●	●
No risk observations noted			
5. Segregation of Duties Risk	●	●	●
No risk observations noted			
6. Fraud Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

cc: County Manager
Deputy County Managers
County Attorney
Deputy County Attorney
Board of County Commissioners
Audit Review Committee

BACKGROUND

The mission of the County Assessor's Office (the "Department") is to discover, list, and appraise all real and personal property in Mecklenburg County in accordance with the North Carolina General Statutes (G.S.). The Department is organized into two divisions: Real Property Appraisal and Personal Property Appraisal.

The Real Property Appraisal Division is responsible for listing, discovering, and assessing residential and commercial properties for ad valorem tax purposes. North Carolina G.S. §105-285 requires that all real property (REA) be assessed at fair market value as of January 1st of a revaluation year.

The Personal Property Appraisal Division is responsible for locating, listing and appraising all individual and business personal property on an annual basis. Individual personal property (IPP) is owned by an individual or individuals for personal use, such as boats, unregistered motor vehicles, and trailers. Business personal property (BPP) is any property owned by a business or individual for income purposes, such as equipment, supplies and leasehold improvements. All personal property must be listed as of January 1st at its purchase price.

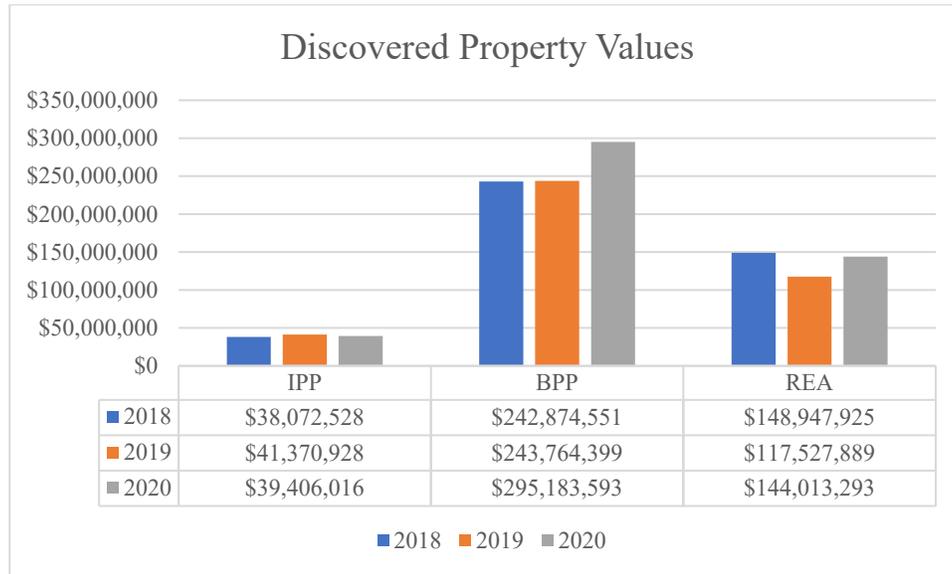
Discovery Process

According to North Carolina G.S. §105-312, "It shall be the duty of the assessor to see that all property not properly listed during the regular listing period be listed, assessed and taxed." The Department discovers property by determining one of the following:

- Property has not been listed during a listing period
- A taxpayer made a substantial understatement of listed property
- Property was granted an exemption or exclusion for which it did not qualify.

The Assessor uses a variety of methods to ensure unreported property is listed, such as desk audits, field visits and in-office research. The Department also works with an external vendor to perform random audits on business personal property for listings valued at \$40,000 or higher. All property located in Mecklenburg County is taxable as of January 1st at the rate set by the Board of County Commissioners (BOCC) for that year.

The chart below shows the appraised value of real and personal property discovered during January 1, 2018 through December 31, 2020.



Source: County Assessor's Office, unaudited

Systems

The Department uses the North Carolina Property Tax System (NCPTS) to support tax assessment for real and personal property, e.g., billing, collections, and staff notes. Documentation related to assessments and appraisals is scanned and stored into OnBase, a document repository system. AssessPro is the system used to value real property. AssessPro follows a series of calculation steps that determine the total appraised value of real property.

COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

Risk Observation

- 1.1 Formal Documentation—While the Department has documented policies and procedures for discovery work, they did not always reflect current or best practices. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

- 1.1 Internal Audit recommends management update their policies and procedures and train staff accordingly. Policies and procedures should include, at a minimum:
- Segregation of duties
 - Staff training requirements
 - Frequency of policies and procedures review and updates

Management’s Response

- 1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** January 2023

Action Plan: The department has assigned a review and update of all Standard Operating Policies and Procedures to reflect current and best practices for Real Property discovery also known as “Rebate/Rebill” process and for Personal Property discovery processes. Updated policies and procedures, or Standard Operating Procedures, will adhere to the recommendation of Internal Audit to include a segregation of duties, the required training for staff members related to discovery and a review cycle appropriate for the property classification. Real Property is valued every 4 years and the Rebate/Rebill process will be reviewed on the same cycle as the Real Property revaluation. Personal Property will be reviewed and updated annually in conjunction with the Annual listing period of January 1-31st each year.

Risk Factor	Criticality	Design	Operation
2. Compliance Risk	●	●	●

Risk Observations

- 2.1 Document Storage—The Department did not consistently store documents in OnBase, as required per the Department OnBase Training Manual. Some documents were stored within the team shared

folder and/or the administrative system, resulting in staff inefficiencies with reviewing property information.

- 2.2 Desk Audits—In 2020, the Department stopped conducting desk audits of businesses due to various impacts from the COVID-19 pandemic, such as business closings and limited staff. However, the Department has yet to resume conducting desk audits, as required by NCGS §105-312(b), even though businesses have reopened, and staff capacity has increased.

Recommendations

- 2.1 Internal Audit recommends management train staff on the Department OnBase Training Manual and ensure all documentation is retained in the OnBase system.
- 2.2 Internal Audit recommends management restart the desk audits and ensure they are conducted annually, as required.

Management's Responses

- 2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** December 2022

Action Plan: We currently do not have cloud-based capabilities in NCPTS. The department will review new cloud storage options now available from our Property Valuation and Billing vendor. The department will determine what storage better serves the needs of the department and will review the existing policy and update the policy to reflect best practices for document storage based on North Carolina Department of Cultural Resources document retention schedule, and electronic storage recommendations. The department will continue to work with the document storage vendor currently in place to improve indexing and search functions within the document storage repository in Mecklenburg. We will make certain that the policy we have in place matches the process.

- 2.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** April 2023

Action Plan: The department will resume the in-office desk audit process for businesses valued \$39,999 or less, after the extended listing period ends for Tax Year 2023. Desk audits will be monitored in the same manner as third-party audits with complete and total oversight by the Personal Property Manager. These statistics are reported monthly in a process that ultimately reaches the executive team. The Personal Property division will be providing additional support to the Real Property division to assist with Revaluation customers and informal appeal process which will run concurrent to the extended listing season. The department has continued to conduct regular listing, phone and informal desk audits as part of the annual valuation process, as well as outside, third-party audits for businesses valued at \$40,000 and over, using a random selection process for any businesses that have not been audited in the prior 5 years.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Integrity Risk	Failure of employees, vendors, or other parties to carry out their activities in compliance with the law and ethical standards of the organization may result in fraud.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.
Valuation Risk	Failure to use adequate formulas, models, judgments, and supporting information may result in an inaccurate tax assessment.

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system designs do not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.