



## Internal Audit

### Assessor's Office – Commercial and Residential Property Tax Assessment

January 2013

# Bernalillo County Internal Audit Assessor's Office – Commercial and Residential Property Tax Assessment

## Executive Summary

### SUMMARY OF PROCEDURES

REDW performed an internal audit of Bernalillo County Commercial and Residential Property Tax Assessment. Our internal audit focused on evaluating if property valuations and taxes were assessed in accordance with the required policies and procedures and ensuring the related State Statutes, regulations and county codes were properly followed.

In order to determine whether policies and procedures were followed and property valuations were documented appropriately:

- We gained an understanding of the process by interviewing relevant personnel, reading policies and procedures and relevant State Statutes;
- We obtained the tax rolls for 2010, 2011 and 2012. We performed data analysis to identify unusual valuations and tested a total of 912 properties for documentation to support the valuation including permits, deeds, exemption and value freeze applications, protest support, and notes in the iasWorld system.

### SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We identified areas during the course of the audit where controls were functioning properly and established procedures were followed. Most notably, all properties assessed above the 3% cap were processed in accordance with the State Statutes regarding property tax limitations. In addition, all valuation freezes tested were properly supported.

Significant medium or high risk observations are presented below.

- **Inadequate Documentation**—Inadequate documentation increases the risk of error and fraud by making it difficult or impossible to determine if related changes or values are appropriate. During our testing we identified several instances where there was no documentation to support protest of value changes and exemptions. Additionally, there were no notes in the system to show why the value did not change on properties with recent building permits.

- **Untimely Revaluation of New Construction**—Revaluations must occur in the year following when the construction was completed, otherwise the 3% cap is in effect for the property which causes lost revenue for the County. Four of 127 properties tested were not revalued during the allotted time period, and therefore the additional value of the property could not be added for tax purposes. The Assessor’s Office should implement a process to monitor new construction and addition revaluations. This will ensure that revaluations are performed on a timely basis for these properties.
- **Transfer of Ownership**—Property valuations are updated when a change of ownership occurs. At that time, the property should be reassessed and updated within the system. One of 22 quitclaims, where a transfer in ownership took place, was not taxed properly for a year. Once a property is identified as including an error in the previous tax assessment, the Assessor’s Office should consider whether the County can request back taxes. A process should be implemented to address what action should be taken when these situations occur.

\* \* \* \* \*

Further detail of our purpose, objectives, scope, and procedures is included in the internal audit report.

*REDW LLC*

Albuquerque, New Mexico  
April 2, 2013

**Bernalillo County Internal Audit**  
**Assessor's Office – Commercial and Residential Property Tax**  
**Assessment**

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# **Bernalillo County Internal Audit Assessment Office – Commercial and Residential Property Tax Assessment Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist Bernalillo County in evaluating whether commercial and residential property values were properly assessed. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance meeting was held on January 14, 2013, and fieldwork began that week. An exit conference was held on February 14, 2013, and final updated management responses were received on June 18, 2013.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

## **PURPOSE AND OBJECTIVES**

REDW performed an internal audit of Bernalillo County Commercial and Residential Property Tax Assessment. Our internal audit focused on evaluating if property valuations and taxes were assessed in accordance with the required policies and procedures and ensuring the related State Statutes, regulations and county codes were properly followed.

## **SCOPE AND PROCEDURES PERFORMED**

**Interviews:** In order to gain an understanding of the internal control process over property valuation and tax assessment, we interviewed the following personnel:

- Tanya Giddings, Assessor
- Tom Sams, Chief Information Officer

**Policies and Procedures and Other Documentation:** In order to gain an understanding of the processes and controls over property valuation and tax assessment we read the:

- Assessor Office written policies and procedures for property valuation, property tax assessment and exemptions; and
- Relevant portions of State Statutes including NMSA 7-36-16 through 7-36-38.

**Testwork Performed:** We obtained the 2010, 2011 and 2012 tax rolls and performed the audit procedures detailed below.

- We obtained a listing of quitclaim deeds processed for 2010 and 2011 and selected a sample of 22 quitclaim deeds involving conveyance (based on a 90% confidence level (CL) and 10% tolerable deviation (TD)) to determine if the conveyance was treated properly;
- We obtained a listing of residential and commercial building permits completed in 2011 and selected a sample of 127 (based on a 95% CL and 2% TD) to test that the revaluation supported the property's taxable value and was properly reflected in the subsequent year's Notice of Value;
- Using the tax rolls we performed a year to year analysis to identify properties that experienced a >3% increase. We selected a sample of 22 properties (based on a 90% CL and 10% TD) to determine if the revaluation was presented appropriately and processed in accordance with the limitations set forth in the State Statutes;
- We selected a sample of 44 individuals (based on a 90% CL and 10% TD) who received a new property tax exemption during 2011 and 2012 and determined if the individual was qualified for the exemption;
- We selected a sample of 22 properties (based on a 90% CL and 10% TD) from the 2011 and 2012 tax roll that qualified for exempt status (for charitable, religious, and educational organizations and governments) and determined if the exemption status was adequately supported;
- We obtained a listing of residential and commercial certificate of occupancy permits issued during 2010 and 2011. We selected a sample of 124 permits (based on a 95% CL and 2% TD) and tested that adequate notes were in iasWorld system to support the property valuation and that the taxable value was reflected in Notice of Value;
- We identified properties that did not receive a property value increase from 2010 to 2011 and from 2011 to 2012, and selected a sample of 22 (based on a 90% CL and 10% TD) to test that the property valuation freeze was adequately supported;
- We identified properties in 2011 and 2012 valued under \$25,000 and selected a sample of 148 properties (based on a 95% CL and 2% TD). We tested that adequate notes were in the iasWorld system to support the property valuation;
- We identified those employees that would not typically make changes to property values as part of their normal job duties and judgmentally selected five employees. We obtained a list of all changes made by the five employees to property values in 2012 and, based on notes in the iasWorld system, tested that the changes were appropriate;
- We identified properties that declined in value from 2010 to 2012, and judgmentally selected a sample of 35 properties to test that adequate notes were in the iasWorld system to support

the property valuation. For those that were reduced due to protests, we tested that the protests were adequately supported;

- We obtained a listing of personnel and judgmentally selected 30 employees. We tested that adequate notes were in the iasWorld system to support the valuation of properties owned by the employees;
- We identified 50 non-residential properties that received a head-of-household exemption in the years 2010 through 2012 and tested if the individual's qualification for the exemption was supported;
- We identified properties receiving the head-of-household exemption with the same owner name on the 2012 tax roll and judgmentally selected 173 properties. We tested notes in iasWorld system and supporting documentation to ensure the owner was not receiving a head-of-household exemption on more than one property.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### ***General Management Response to audit from Madam Assessor Giddings:***

“I would like to take this opportunity to thank the REDW staff for their professionalism and collaborative approach while conducting their audit on the Assessor's Office. Upon the appointment to the office of the Assessors in January 2013, I began a review to evaluate the processes and procedures for efficiency and error rates. This was done through communication with staff, observation, analysis and review of reports and prior evaluations conducted by REDW and/or other government entities. Some of the issues of findings identified by REDW were issues that the new administration had already recognized and focused on and was either in the process of implementing changes, or changes had already been implemented. The REDW report will be utilized to help our office continually improve on our processes to better serve the property tax payers of Bernalillo County.”

### ***Update from the Assessor as of June 18, 2013:***

“Over the past five months, the Assessor's Office has been very focused and active in reviewing the operational procedures of the agency. This business methodology analysis process has identified some areas of operations that are in need of restructuring. One of the key areas identified is the proper documentation of transactions, such as changes to property values and tax exemptions that are granted or denied. As a result, the Assessor and her management team have implemented a number of measures to address the areas in need and continually review and monitor performance outcomes to ensure the delivery of the highest quality of service to the public at large. The measures implemented include the following:

- The hiring of a Quality Control Specialist is a key element in the restructuring of the internal control procedures employed by the agency.
- During the weekly scheduled supervisor's meeting, the necessity for accurate and thorough documentation is reiterated and strongly emphasized to the managers of every department in the agency. It is made clear that this documentation requirement is to be underscored to every staff member of the agency. The Assessor is in the process of developing and implementing a performance measure system for the purpose of analyzing the accuracy and thoroughness of

transaction documentation. The associated statistical metrics will allow for timely and comprehensive reviews of operational results.

- The managers of the Residential and Commercial Appraisal departments held training sessions specifically designed to re-emphasize not only the importance of proper documentation, but the procedures on how to properly document transactions as well. This and other types of training prompted by operational needs will be conducted on a regularly scheduled basis, or as needed.
- The Assessor has engaged a CPA firm to perform an overall operational analysis of the agency to determine the sufficiency of the agency’s business methodology and performance. The CPA firm will team with appointed staff of the office to review current procedures and develop a business flow schema representative of the business operations. This will, among other things, identify areas in the internal control procedures and practices that need implementation or revision. This facet of the business methodology analysis process is of the highest priority to the Assessor and her executive management team.”

### ***Observations***

We identified the following weaknesses relating to the Bernalillo County Assessor’s Office processes:

#### ***1) Inadequate Documentation***

Inadequate documentation increases the risk of error and fraud by making it difficult or impossible to determine if changes and/or values are appropriate. We identified the following:

##### **a. Lack of Protest Support**

When an owner protests the assessed value of property there should be documentation kept to support the change including protest documents. Two of 35 properties tested had notes in the system stating that the value declined due to protest; however, there was no protest documentation to validate the notes.

##### **b. Exemptions**

State Statutes allow for a property tax exemption on an owner’s primary residence. When an exemption is taken, documentation should be maintained to support this exemption. We identified the following:

- Three of 71 exemptions were taken and there was no supporting application.
- Thirteen of 50 exemptions were inappropriately taken on vacant land or commercial property.
- Three of 173 property owners inappropriately had multiple head of household exemptions.

##### **c. Valuation Notes in the System**

The Assessor’s Office monitors building permits to help identify properties that need to be revalued. We identified two of 127 permits tested where the permit was closed with no revaluation, and there were no notes in the iasWorld system to support no change in value. Based on the permit description it appears that the value should have been increased. We also identified one instance out of 66 changes tested where an employee changed the value of a building and no support or notes were available for that change.

**Risk Level: High**

## Recommendations

- a. Since there are many changes that occur each year, the system should include notes to support why a value changed or did not change. Without these notes it is difficult to determine if changes in the property were considered in the value assessment or if the assessment was reasonable.
- b. The Assessor's Office should image all supporting documentation (i.e. protest documents, exemption applications and certificates of eligibility, etc.) and attach these in the system as support for these value changes. In addition, the Assessor's Office should provide additional training to employees on when an exemption is allowed as well as to remind employees of the importance of documenting all actions taken on a property whether it resulted in a value change or not.
- c. The Assessor's Office should consider performing internal evaluations on protests and exemptions to ensure they are allowed and properly supported by documentation in the system.

## Management Response

- a. The Assessor's Office agrees that all protest and exemption documents should be imaged and the documentation retained to support any changes. State retention schedules have recently changed requiring the Assessor to maintain protest records for ten years instead of two years. And although some of the audit observations were for exemptions applied for more than one year prior to testing, and the statutory retention for application forms for exemptions is one year from the date of application, the Assessor's Office does understand the importance of cataloging all supporting documentation. The policies and procedure for scanning (imaging) the protest documents have been impacted over the last year due to a re-organization of personnel in the office. As such, the established policies and procedures, with appropriate internal quality controls, were in a transformative condition due to the personnel realignment, thus altering its effectiveness.
  - i) The Administrations and staff have already had meetings with the County Records Retention manager to improve records management processes and procedures.
  - ii) The new Administration of the Assessor's Office had early on identified staffing insufficiencies in several areas of operations. As a result, a comprehensive review was conducted to develop a hiring strategy to address the state of affairs.
  - iii) The Assessor's Office is currently updating equipment and re-assigning personnel to manage the records. Current staff with experience in this discipline has been realigned to fill this vacancy until the Imaging Technician has been hired.
  - iv) We also will be utilizing an additional table in our assessment record to record information relating to the actual individual that signs for the exemption, allowing systematic edits of owners and applicants.
- b. The Assessor's Office understands and concurs that all exemptions should be evaluated to ensure they are valid.
  - i) The Administration Department has notified the appraisal staff that they need to notify the Customer Service Department anytime a property class is changed from residential to non-residential (vacant). The Customer Service Department is the section of the Assessor's Office that is able to make this type of classification adjustment. We will monitor this by a systematic edit to find any exemptions on vacant parcels. Note that this edit has already been performed for the 2013 tax rolls and all parcels corrected.

- ii) A Head of Household exemption could be placed on a split-use parcel that has both a commercial and residential element with a person living on site. A report was run to check on commercial properties that have a Head of Household exemption. A field inspection was performed on any parcels that had a commercial classification and verified someone was living on the premises. A systematic edit check that will flag split-use parcels and field inspection reviews of the parcels will be incorporated into policies and procedures.
- c. The Assessor's Office understands and concurs that refresher training should be implemented to remind employees of the importance of documenting actions taken on a property whether it resulted in a change or not. The Assessor's Office also concurs that additional training should be provided to personnel in regards to exemptions.
  - i) The policies and procedures will include regular refresher training on all critical topics on a semi-annual basis. A training database has been developed and maintained to track employee training and will be used to monitor attendance and completion of all mandatory training.
  - ii) An exemption report has been and will be continuously run on a quarterly basis, and will be reviewed and verified for eligibility by two employees trained on the topic. Any correction to be made will be reviewed and approved by the Administration Department, and the tolerance level of corrections will be appraised to determine if the frequency and depth of training should be adjusted.
  - iii) A standardized form with questions employees must answer is currently being developed and will be scanned in as a permanent supporting document. The form is designed in the format of a checklist to assist in ensuring consistency and completeness in carrying out tasks. The submission of this form by the staff will also be tracked in the training database.

## ***2) Untimely Revaluation of New Construction***

Revaluations must occur in the year following when the construction was completed, otherwise the 3% cap is in effect for the property. Four of 127 properties tested were not revalued during the allotted time period, and therefore the additional value of the property could not be added for tax purposes. This causes lost revenue for the County as the Assessor's Office does not go back to recoup the missed taxes.

**Risk Level:** High/Moderate

### **Recommendations**

The Assessor's Office should implement a process to monitor new construction and addition revaluations. This will ensure that revaluations are performed on a timely basis for these properties.

### **Management Response**

The Assessor's Office recognizes that a process that partners the Assessor's Office and the Zoning Office on this matter should be researched, developed and implemented to monitor new construction and addition revaluations to ensure that revaluation reviews are performed on a timely basis for those properties. This has been an issue that has been identified and noted previously. The new administration has met and is working with the City Zoning Office to

promptly receive Certificate of Occupancy information so that the Assessor's Office can field inspect the subject properties to insure timely assessment of the improvements.

A recent report of Certificate of Occupancy information was provided by the City Zoning Office, and consequently numerous improvements were added to the 2013 tax roll which wouldn't have been under the previous operating procedure. To further enhance the prompt receipt of this information, we are developing a process to "load" the Certificate information into the appraisal system for even better tracking that will further improve our ability to assess the new improvements.

### ***3) Transfer of Ownership***

Property valuations are updated when a change of ownership occurs. At that time, the property should be reassessed and updated within the system. One of 22 quitclaims, where a transfer in ownership took place, was not taxed properly for a year. The previous owner was fully exempt from property taxes and the new owner was not. Due to the untimely filing, the County missed out on a full year of tax on the property.

**Risk level:** Moderate

#### **Recommendations**

Once a property is identified as including an error in the previous tax assessment the Assessor's Office should consider whether the County can request back taxes. A process should be implemented to address what action should be taken when these situations occur.

#### **Management Response**

The Assessor's Office understands and concurs that a process should be implemented to address what action should be taken when an error in the previous tax assessment has been determined. As identified in an earlier audit finding in this report (Lack of Protest Support), the Customer Service Department is one of the operations that has been impacted over the last year due to short-staffing and re-organization of personnel in the office. Although this does not lessen the importance of this matter, the staffing issue has hampered that department with their ability to perform thorough research of data entry within the statutory deadlines. With adequate levels of staffing, refresher training on a regular basis, (such as semi-annually), and revised policies and procedures, improvements on this matter (as addressed in our response regarding Exemptions) can be achieved.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

*REDW LLC*

Albuquerque, New Mexico  
April 2, 2013