



Assessor's Office Personal Property

Internal Audit

January 2014

Bernalillo County Internal Audit Assessor's Office Personal Property

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over selected processes within the Assessor's Office. Our internal audit focused on testing internal controls over the process to input and update personal property valuation data, as well as compliance with applicable State Statutes.

The procedures performed included:

- Obtaining an understanding of the personal property valuation procedures through reading policies and procedures, relevant State Statutes and through interviewing various Assessor Office personnel.
- Testing a sample of new business licenses to determine if the related business were properly included on the tax rolls.
- Testing a sample of business personal property to ensure that the value was properly supported by the owner's response to the rendition.
- Testing a sample of value changes to determine if the changes were properly supported and performed by authorized personnel.
- Testing a sample of real property receiving the special method of agricultural valuation due to livestock to ensure the corresponding livestock was assessed and included on the personal property tax rolls.
- Testing a sample of manufactured home personal property to ensure that the value was properly supported. Also, any with tax releases were tested to ensure the release was issued in accordance with policies and procedures, and the proper documentation of payment existed.
- Testing a sample of protests to ensure they were properly supported, reviewed, and filed within the allowable timeframe.
- Testing a sample of value changes to ensure they were for a valid reason, properly supported and approved.
- Testing a sample of property tax exemptions to ensure that there was an application and proper documentation on file to support the qualification for the exemption.
- Determining whether policies and procedures in place were in compliance with relevant State Statutes.

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 of the new exemptions tested were properly supported. Significant high and moderate risk observations are presented below:

- **Business Personal Property:** Businesses often do not respond to renditions. Approximately 25% of businesses sampled had yet to respond to any of the renditions sent out by the Assessor's Office; therefore, those businesses had a \$0 taxable value on the tax rolls. In addition, not all new businesses established in 2011 and 2012 were added to the tax rolls on a timely basis.

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

We received excellent cooperation and assistance from the department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
March 24, 2014

Bernalillo County Internal Audit Assessor's Office Personal Property

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Bernalillo County Internal Audit Assessor's Office Personal Property Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes within the Assessor's Office. 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 conference was held on January 15, 2014, and fieldwork began on January 22, 2014. An exit conference was held on February 20, 2014, and final management responses were received on March 24, 2014.

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

Our internal audit focused on evaluating the process to input and update personal property values and to determine if these processes were in compliance with policies and procedures (P/Ps), applicable laws and regulations, and reflected sound internal controls.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and internal controls surrounding the Assessor's Office valuation of personal property, we interviewed the following personnel:

- Tanya Giddings, Assessor
- Damian Lara, Deputy Assessor/CIO
- Rocio Martinez, Manufactured Home Supervisor
- Robert Mosley, Business Personal Property Supervisor

In order to understand policies and procedures regarding personal property valuation we read relevant portions of:

- Business Personal Property Department, Agricultural Department, and Manufactured Home Department policies and procedures; and,
- Applicable portions of NMSA Chapter 7 (the Property Tax Code), Articles 35 through 38.

We performed the following testwork:

Business Personal Property: Based on a 95% confidence level (CL) and 5% tolerable deviation (TD), we selected a sample of 59 business personal properties from the 2012 and 2013 tax rolls. For each property selected, we tested if the value was properly supported by an owner's response to the rendition and that it agreed to the iasWorld System. If the owner did not respond to the rendition, we then determined if any follow-up action was taken (i.e. additional notice sent or attempts made to the contact owner).

New Business License: We selected a sample of 55 new business licenses issued in 2011 and 2012 (10% of population) to ensure the related businesses were included on the tax rolls for the following year.

Livestock Personal Property: From the 2012 real property tax roll, we selected a sample of 50 properties with special agricultural pricing (10% of population). If the agricultural pricing was due to livestock, we ensured the corresponding livestock was present on the personal property tax roll.

Manufactured Home Personal Property: We selected a sample of 22 manufactured homes (90% CL and 10% TD) from the 2012 and 2013 personal property tax rolls, and tested that the value of each property was accurate based on NADA values.

For each manufactured home selected for testing, we determined if any had a tax release issued in 2012 or 2013. We then ensured tax releases were issued in accordance with policies and procedures, and that proper documentation of payment existed.

Personal Property Protests: We obtained a list of all Personal Property protests made during 2013. We then selected a sample of 32 protests (10% of population) and tested that the protest form was complete and properly supported, protest was filed within the allowable timeframe, and the value change was properly approved.

Changes in Value: Utilizing a list of all changes (33 total) to value in 2012 and 2013 that were not a result of owner responses to renditions or protests, we tested to determine whether the changes were made for a valid reason, supported by appropriate documentation, and properly approved.

Property Tax Exemptions: We obtained a listing of all new personal property tax exemptions during tax year 2013 (14 total) and tested to determine whether an application and supporting documentation was on file to support the qualification for the exemption.

Compliance with Laws and Regulations: We utilized REDW's State and Local Tax specialist to compare relevant State of New Mexico statutes and regulations to the Assessor's Office Business

Personal Property policies and procedures manual dated April 2009 to identify areas of noncompliance and areas for improvement.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

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

1) Business Personal Property

Businesses that have taxable personal property are required to respond each year to the renditions sent out by the Assessor's Office in order to update the value of their taxable personal property. In our testing of 59 existing businesses and 55 new businesses (114 total), 35 (31%) did not respond in 2013. Twenty-nine of these (25%) had never responded to the renditions and therefore had a \$0 taxable value on the tax rolls.

Additionally, we identified seven new businesses from 2011 and 2012, which were not added to the tax rolls; therefore, renditions were not sent out by the Assessor's Office.

Risk: High—Failure to update or input the values of taxable personal property could result in significant lost revenue.

Recommendation

The average taxable value is approximately \$12,500 (excluding the businesses with \$0 values on the tax rolls and businesses with a taxable value of over \$100,000). Based on data provided by the Assessor's Office there are approximately 7,500 businesses that have never responded and therefore are not paying any tax. Based on the adjusted average value and the total non-responders, there could be \$93,750,000 missing from the tax roll. The average tax rate from our sample was 4.54% which equals a potential \$4.3 million in tax revenue that may not have been billed because the business owners did not respond to the renditions and no follow-up occurred.

The Assessor's Office should send out a second notice to all non-filers, including information regarding follow-up actions that are permitted by statutes (i.e. audit of personal property). If the business owners fail to respond to the second notice, a third notice could be sent out to schedule an audit. This notice process would take limited resources to implement.

In addition to the notices sent to non-filers, the Assessor's Office should create a process to conduct audits of business personal property. The audits should be prioritized starting with larger businesses that have never responded to the renditions, then businesses that have not replied in a number of years, followed by businesses that did not reply in the current year but did reply in the previous year. If time still permits, additional audits could be conducted on businesses that do routinely respond to the renditions, starting with the larger businesses.

The Personal Property department should ensure that all new businesses that have an "active" license status as of the date of valuation are added to the tax rolls and a rendition is mailed to the business owner of record. Additional notices and follow-up procedures should be performed for any new business that does not respond to the rendition.

Management's Response

Currently the Business Personal Property Department is staffed by three employees (i.e. the Business Personal Property Supervisor, Administrative Assistant and Assessor Tech Lead) who are responsible for processing approximately 20,000 business renditions each year. The current staffing levels for the department represent a 60% reduction in workforce from prior years. Nonetheless, the Assessor's Office has cross trained other employees and provided overtime to ensure timely and accurate processing of business renditions within the mandatory statutory deadlines.

The timeline required by statute and the internal logistics required to mail out over 285,000 Notice of Value (NOV's) make sending a second and third "notice" to all "non-filers" impossible. NMSA 1978 Section 7-38-7.1 allows businesses to submit the rendition until the last day in February and NMSA 1978 Section 7-38-20 requires a NOV to be mailed by April 1 – or May 1 if an extension is requested and granted. Thirty days, and even sixty days, is not sufficient time to identify "non-filers", mail out a second rendition request and then wait for and process any returned renditions reports in time to mail out the NOV's by the statutory deadlines.

However, since the 2013 tax year the Assessor's Office changed the prior administration's policy of not sending a NOV to business with a zero value. Because New Mexico is a self-rendering state the business owner is responsible for ensuring that the Notice of Value is correct. Furthermore, for the 2014 tax year, a letter was inserted into the business personal property NOV's. The letter explains the follow-up actions permitted by statutes.

2) *Protests and Assessor Authorizations*

During our testing of 32 protests (including Assessor Authorizations), we identified nine Assessor Authorizations (AAs) where there was no evidence that the Assessor or Deputy Assessor approved the change in value by signing the AA form. These nine AAs were all for manufactured homes, and only one form contained a supervisor's signature while the other eight were only signed by the preparer.

In addition, we identified one protest where the supporting documentation had not been scanned into the system and the hardcopies could not be located. This was also for a change in the value of a manufactured home.

The Manufactured Homes policies and procedures state that "The manufactured home staff is responsible to verify, sign and issue all authorizations for the mobile home department. Authorizations can be generated to create a new tax bill (omitted authorizations), issue a change on the tax bill (judgment authorizations), or cancel a tax bill (delete authorization). Once an authorization is created and reviewed by the Manufactured Home Supervisor, it is processed to be authorized by the Deputy Assessor."

Risk: Low—Since there is no review process and changes can be made by any employee in the area, unauthorized and inappropriate changes to value could occur and not be detected or corrected. There were no inappropriate changes identified in our sample tested.

Recommendation

The Manufactured Home department should ensure that the procedures are followed on each Assessor Authorization processed. Additional training should be provided if necessary to ensure all personnel understand the requirements.

Management's Response

While no inappropriate changes to value were identified in the audit sample tested, the Assessor's Office is cognizant that without following the review process established inappropriate changes to value might occur in the future.

Prior to March 3, 2014, the Manufactured Homes Department was being staffed by shared employees from other departments within the Assessor's Office who were cross trained and with Youth Development Inc. volunteer staff. Additionally, the Manufactured Homes Department was transferred from the supervision of one of the Deputy Assessors to the other during a reorganization period. Since March 3, 2014, a dedicated Assessor Tech Lead and Assessor Tech I were hired to staff the Manufactured Homes Department and all Assessor Authorizations are signed and authorized by the Chief Information Officer/Deputy Assessor. Training was provided by the Assessor Training Coordinator to the Assessor Tech Lead and Assessor Tech I and continued on the job training and supervision is provided by the Manufactured Homes Supervisor. The Manufactured Home Department is now ensuring that the procedures are followed on each Assessor Authorization processed.

As a result of prior audit recommendations Assessor Giddings brought back the Micrographics Tech position and an employee was hired and started on July 8, 2013. The Micrographics Tech began to address the back log of documentation for scanning including Assessor Authorizations. Unfortunately less than seven months later the Micrographics Tech was offered a higher paying position and resigned from the Assessor's Office effective February 6, 2014 – during the fieldwork of the REDW auditors. In order to prevent a backlog of unscanned documents, three employees from other departments were cross trained to complete the duties and responsibilities of the Micrographics Tech. However, the additional duties assigned to these employees have placed an additional strain on their respective departments.

3) *Agricultural Pricing*

If real property receives special method of agricultural valuation due to livestock there should be corresponding livestock on the personal property tax roll. We identified one of 50 properties in which there was no value for livestock on the personal property tax rolls that received special method of agricultural valuation on the real property roll. The value of the land was originally listed at \$52,000 with an agricultural value of \$261, but with the special method of agricultural valuation the tax on a value was reduced significantly to \$87.

Risk: Low—Since the special method of agricultural valuation is a fraction of the actual land value, there is a potential for missed revenue if the agricultural pricing is incorrectly given.

Recommendation

The Assessor's Office should develop a process to reconcile land owners receiving the agricultural pricing for livestock/grazing with the livestock owners.

Management's Response

As noted in the scope of work the test sample reviewed by the auditors was from the 2012 tax roll. Since being appointed in January of 2013, Assessor Giddings reinstated the Agricultural Department and the Quality Control Department to ensure — among other internal control measures — that land owners receiving the Special Method of Agricultural Valuation use as a result of livestock reported, actually have livestock on the tax rolls. In addition to canvassing and

ensuring eligibility for more than 4,000 agricultural exemptions, the Agricultural Department is responsible for processing approximately 700 livestock accounts.

The process to reconcile land owners receiving the agricultural exemption as a result of livestock has been developed and established for the 2014 tax year. A search query for “edits” is ran by the Quality Control Department and the Agricultural Department reviews the report and makes necessary edits and corrections before the 2014 NOV’s are mailed out.

4) Quality Control

We identified one property in which the incorrect value was entered into the system from the rendition response. The error went undetected until the protest period when the business owner filed a protest to correct the value.

Risk: Low—Undetected errors could occur, leading to inaccurate valuation assessments and tax calculations.

Recommendation

A quality control process should be implemented to review values in the iasWorld system. The quality control process should include reviewing values entered based on rendition responses, protests, and Assessor Authorizations and comparing these to supporting documentation.

Management’s Response

Assessor Giddings reinstated the Quality Control Department to work with appraisal teams to ensure source data, including rendition responses and data collected in the field, is entered accurately, consistently and uniformly. The Quality Control Department is also working on the development of metrics to track and improve performance measures and outcomes. The performance measures metrics will be implemented by April 5, 2014. Moreover, the Quality Control Department will also perform spot checks on all values entered by reviewing the values entered and the source data, including rendition responses, protests documents and visual confirmation of field inspections. Spot checks are expected to begin May 1, 2014.

5) Manufactured Homes

Assessed values are based on published NADA values. The values of the manufactured homes tested from the personal property tax rolls were not properly supported. In our testing of 22 homes, 19 of the assessed values did not match with NADA values. This is due to the cost tables not being updated for a number of years. In addition, we identified one home that did not have a published NADA value, and no field inspection was done to assess the value of the home as required by policy.

Risk: Low—Using outdated tables results in inaccurate assessed values. Since there is a tax being assessed the variance is not likely to be significant.

Recommendation

Cost tables that support or provide assessed values should be updated at least annually in accordance with Statute and internal policies. If a manufactured home is identified as not having a NADA value – which is likely due to the rare make, model, age, or condition of the home – a field inspection should be performed timely to ensure an accurate assessed value on the tax rolls.

Management's Response

The Assessment Manager is responsible for updating the cost tables at least annually. Unfortunately, the assessment manager position has been vacant since 2010. The position has been posted and the Assessor's Office is awaiting candidates to be referred for interviews.

During the interim some of these duties have been assigned to other employees. In order to ensure an accurate and efficient updating process, an expert from the CAMA system was brought in to conduct a three day cost table training for 10 employees during the week of January 20, 2014. An additional cost table training, focused on residential and manufactured homes, will be conducted later this year. These trainings are provided at no additional cost to the Assessor's Office or taxpayers by the vendor as part of the contract. Certain cost tables for real property were already updated for the 2014 tax year. The remaining cost tables will be updated for the 2015 tax year before the Notice of Values are mailed out in the Spring of 2015.

Similarly, the Manufactured Homes Department has been extremely understaffed and had almost 95% turnover rate in the past year. As mentioned previously, the Manufactured Homes Department was staffed by shared employees from other departments and during that time field inspections were conducted only when extremely necessary. With the hiring of an Assessor Tech Lead and an Assessor Tech I, the department only needs an Appraiser I to be fully staffed. Once the department is fully staffed regular field inspections and canvassing activities will commence. The department is expected to be fully staffed by July of 2014.

6) *Policies and Procedures*

There were areas identified where the policies could be strengthened. See recommendations below for specific areas.

Risk: Low—Unclear policies and procedures leave more room for interpretation and misunderstanding by staff responsible for the daily tasks. This could lead to errors.

Recommendation

To ensure compliance with the New Mexico Property Tax Code, the Assessor's Office should consider making the following modifications:

- The NMTRD Property Tax Division provides annual guidance through the "Business Personal Property Valuation guidelines." The Assessor's Office should include and utilize the current year copy of this manual with their policies and procedures.
- The P&P's introductory section should include references to the NMTRD statutes for the identifying and valuing of business personal property.
- Deadlines included in the manual that are supported by statutory guidance should include a reference to the statute.
- In situations where an appraiser is reviewing/auditing Business Equipment Reports, Property Owner Inquiries, or Protest valuations, the policies and procedures should provide reference to the NMTRD statutes, Internal Revenue Code, or Business Personal Property Valuation Guidelines.
- The protest procedures and property owner forms should include statutory guidance as to timeline, policies and procedures, and valuation changes.

- The policies and procedures manual should include treatment for companies using Industrial Revenue Bonds to purchase business personal property. This guidance should include policies and procedures for filing requirements, valuation, and treatment of payment-in-lieu of taxes (PILOTs).
- The policies and procedure manual should address the taxability and valuation of alternative energy business personal property.
- The policies and procedures manual should be arranged to match the order of events in assessing property tax on business personal property.

Management's Response

The Assessor's Office continually reviews and revises its processes, policies and procedures to ensure quality work and services from each department. Additionally, Assessor Giddings established two work groups from October through December of 2013 to review existing policies and procedures, identify areas of concerns and make recommendations for improvement. One work group focused on the Protest Procedures and the other focused on the Assessor Authorization protocols. The Assessor's Office is in the process of updating the policies and procedures manual for the entire office, which was last updated in April of 2009.

All recommendations provided by the audit team will be taken into consideration in drafting the final revised policies and procedures manual for the entire office. The expected date of completion is July 1, 2014. Updating the manual is a continuous measure that ensures the most fair and equitable assessments for the property owners of Bernalillo County.

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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 Commissioner 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.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
March 24, 2014