



Assessor's Office
Internal Audit Report
November 29, 2017
Adams County, Colorado

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Assessor's Office *Internal Audit Report*
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EXECUTIVE SUMMARY

Eide Bailly LLP performed internal audit procedures surrounding compliance with State Statutes and general operational efficiencies and effectiveness of the Adams County Assessor's Office based upon risks the Assessor requested be addressed as part of the 2017 internal audit risk assessment process. Our evaluation included the Assessor's Office processes and controls over compliance with State Statutes. This internal audit of the Assessor's Office was performed on the current processes in place at the time of the internal audit, during the period from September 8, 2017 to October 6, 2017.

During the internal audit, we observed that the Assessor and her staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed or suggested. The Assessor is newly elected and has been in office for almost three years. By utilizing the pre-existing asset of experienced staff as well as incorporating new talent, more efficient procedures and broadening of the technological resources, the office has become more dynamic and efficient in the performance of its statutory obligations.

During our internal audit, we identified recommendations that would improve the Office's controls over information technology and security procedures surrounding the office which are discussed in detail in the Results and Recommendation section below.

BACKGROUND

The Adams County Assessor's Office role within the County is to administer the Office in a manner that assures public confidence in accuracy, productivity, and fairness to provide just and equalized valuations of all real and personal property. The Office consists of several departments which include the following: Administration, Commercial, GIS, Land, Mobile Home, Personal Property and Residential. All departments are located in one location in Brighton, Colorado. Each department is responsible for different aspects of the Office operations.

The internal audit encompassed the risk areas discussed with the Assessor within each department as indicated below, surrounding the following operations:

- Administration – Annually preparing, documenting and making budget recommendations as well as management of all assessment personnel. This includes certification of valuations to all taxing entities within the County, performance of all data processing functions, preparation of tax rolls for County Treasurer, processing abatements and refund petitions, and publishing the annual abstract of assessment.
- Commercial – Determining the value on commercial and industrial classes and subclasses of property.
- GIS – Coordination of geographic information and data for assessment purposes and the maintenance of the countywide geographic information system. This also includes preparation of base maps and updating information on all real estate conveyances, property transfers, splits and legal descriptions for property tax purposes.
- Land – Valuation of vacant land, improved and agricultural land throughout the County. This department also processes newly-platted subdivisions, reviews valuation methods and procedures, physically inspects all parcels of land for valuation purposes, and confirms/verifies sales prices to provide current and updated values.
- Personal Property – Discovers, lists and values all business personal property that is productive to income associated with residential, commercial, industrial, agricultural and natural resource properties. This department publishes notices of valuations and

- determinations, processes appeals, audits books and records of businesses, and physically inspects personal property.
- Residential – Valuation of all improved residential parcels (buildings or structures) which include condominiums, townhomes, apartments and single-family residences. The department confirms and verifies sales data, physically inspects residential improved properties, obtains the property characteristics, sketches the improvement, takes photographs of the property, classified the property, reviews comparative properties, and other tasks for proper valuation.
- Mobile Home – Valuation of mobile homes similar to residential property.

The Assessor's Office has minimal revenue streams; however, those are reflected in the Assessor's Office budget and monitored through the budget process.

OBJECTIVES AND SCOPE

Eide Bailly LLP performed an internal audit of the processes and controls surrounding valuation methods and operational efficiencies and effectiveness within the Adams County Assessor's Office based upon the risk assessment determinations performed with the Office in September, 2017. The overall objective of the internal audit was to identify potential opportunities to strengthen internal controls related to adherence to State Statutes and policies within the Office.

The scope of our procedures included the following within the departments of the Assessor's Office:

- Inquiring and documenting policies and procedures within the office
- Obtaining an understanding of Title 39 of the Colorado Revised Statutes as they relate to the Assessor's Office
- Compliance with State Statutes
- Providing reporting to the Treasurer's office
- Obtaining an understanding of the operational effectiveness and efficiencies surrounding the internal controls within the Office.

Procedures performed during this internal audit included the following:

- Interviews with the Assessor and her staff to identify key risks within the operations of the Office as identified above
- Review of processes with key staff related to the identification of key controls of the operations of the Office
- Perform specific testing over adherence to State Statutes and the Office policies.

INTERVIEWS CONDUCTED

A key component of our procedures involved interviewing key personnel of the Office and of those that oversee the operations of the Office. Numerous interviews were conducted to obtain an understanding of the processes, key controls and key risks within each division. These interviews were important for us to identify the key controls throughout the Office and to identify any opportunities for improvement. The personnel we interviewed were as follows:

- Patsy Melonakis – Elected Official, Assessor
- Cindy South –Deputy Assessor
- Lisa Roberts – Administrative Manager
- Donna Slagel – Assessor Analyst

PROCEDURES PERFORMED

We evaluated the adequacy of controls and processes related to State compliance requirements and general operational efficiencies and effectiveness in place through the following procedures:

Compliance with State Statutes

The Assessor's office must adhere to Title 39 of the Colorado Revised Statutes. Through inquiries and review of State Statutes, we obtained an understanding of the policies and procedures in place to insure the County adheres to these statutes and requirements and documented these policies accordingly. This understanding assisted in developing procedures used in our testing of compliance. We tested compliance according to certain sections of Title 39 which are described as follows:

CRS 39-5-101 addresses the duties of the Assessor. The primary duty of the Assessor is listing all taxable real and personal property located within the County. CRS 39-5-104 requires that valuation of each property be separately appraised and valued. We obtained an understanding of the Assessor's Office by reviewing State Statutes and through inquiry of the Office personnel. We obtained an understanding of the County's assessment software, RealWare. This software is used by each appraiser within the Assessor's Office to assist in valuation of the properties and for maintenance of property inventories by type which are listed as follows: Commercial Property, Agricultural Property, Industrial Property, Mobile Homes Property, Producing Mines/Natural Resources, Residential Property, Oil & Gas, State assessed, Exempt, Vacant Land, and Personal.

Title 30 of the Colorado Revised Statutes fixes salary amounts for various elected officials, including the Assessor. As part of our internal audit, we tested the County's compliance with the salary amount set forth in Title 30. We obtained the personnel file for the County Assessor noting the new hire form at the date she was sworn in stating annual wage. We noted that the wage rate agreed to the statutory rate indicated in Title 30. We also obtained two pay advices, one for 12/31/2016 pay date and the other for the 9/30/2017 pay date. We agreed the salaries paid for each pay advice to the statutory salary without exception.

Valuation

CRS 39-1-102 provides for definitions of different types of land, livestock, equipment, improvements, Assessor, Board, conservation purpose, et al. CRS 39-1-103 provides for the actual value determined and assessments that the Assessor must provide for: "All real and personal property shall be appraised and the actual value thereof for property tax purposes determined by the Assessor. This section defines the three appraisal approaches and documentation requirements for normal valuations: 1) Cost Approach, 2) Market Approach or 3) Income Approach. This section also provides for the value of agricultural lands and other properties. It also indicates that at the sole discretion of the Assessor if neither of the three valuation approaches works then a similar comparison of property can be used for valuation. Personal property taxes are also addressed in this section and the filing of the annual Declaration. Section 39-1-104 provides for the valuation assessment percentages of all taxable property within the state at 29 percent of the actual value. This section doesn't apply to residential real property, producing mines, and lands or leaseholds producing oil or gas. Section 39-1-104.2 addresses the residential rate of valuation and provides a process for adjustments in the ratio of valuation for assessment for residential real property. Based on the determination by the administrator that the target percentage is 45.67 percent, the ratio of valuation for assessment for residential real property is 7.96 percent of actual value for the property tax years commencing on or after January 1, 2015, but before January 1, 2017.

In order to test valuation of properties in the system, we first obtained an understanding of the processes and procedures of the Office with various personnel specifically on how valuation and assessment is performed. From this we performed a walkthrough of the valuation process as follows: we selected a residential property from the property listing. We observed the Office personnel entering the property's account number, which is the property's unique identification code, into the RealWare system. The property specifications are entered into the system by the appraiser. We observed the specifications of the property, input by the appraiser, within the system which included year the property was built, square footage, and bed and bath count. Based on the property specifications indicated above, RealWare has a unique calculation tool which calculates the property valuation based on property type. It was noted that being a residential property, the appraiser used the market based approach and looked at comparative properties in the area to value the home. We noted the comparatives maintained in RealWare.

Because all of the above valuations and appraisals are statutorily required and the Assessor's Office utilizes appraisers to perform these functions, State Statutes also require specific standards be met by appraisers. According to state law, appraisers who substantially contribute to an appraisal must be specifically acknowledged or licensed. Appraisers are licensed according to level, each requiring different qualifications. The levels of appraisers are as follows: Ad Valorem, Licensed and Certified Residential. We selected five appraisers that are employed by the County. For each appraiser selected, we obtained certificates of completion from various continuing education courses. We noted that each appraiser tested has obtained the appropriate amount of credits to meet state requirements.

As part of our walkthrough of properties within the system, we obtained an understanding of the procedures surrounding the completeness of the property listings maintained by the Office and once valued, the procedures performed to transmit information to the County Treasurer's Office for proper collection. Per discussions with personnel, RealWare has a calculation date which shows when the last time the property was assessed. We noted each property should have a current date. Pictometry is used to determine any missed properties or improvements. This is an aerial imagery tool used to locate any properties that may not be included in the system. Once a property is detected by the Pictometry system, an appraiser does a field check to determine valuation and enters information into the system. Once all properties have been valued and certified, the tax rolls are uploaded to the Treasurer's system by the County's Information Technology and Innovation Department (ITI). Once received the Treasurer takes the data uploaded and compares it to data kept at the Assessor's Office to ensure accuracy and completeness of data that was uploaded by the ITI.

For further testing, we selected five properties within each of the categories mentioned above. We selected these properties from the listing of all properties provided. These properties were selected at random based on a random number generation. For the properties selected we obtained the actual value of the property from RealWare and noted support for that value. We also obtained from RealWare the assessed value calculated from the actual value. We recalculated the value based on the statutory assessment rates. Through our calculations we noted no significant differences (+/- \$5) largely due to rounding. We also noted the valuation approach used, all of which were either cost, market or income based approaches as described in State Statutes. Based on the approach used, we documented the information used associated with this approach.

Furthermore, CRS 39-1-113 requires that a hearing be held for any abatements or refunds of property taxes. That hearing must have the assessor or a representative and the taxpayer present. We noted through our testing that either the appraiser or the County Assessor was present for these hearings.

Article 3, part 2 of the Colorado Revised Statutes allows for certain exemptions for qualifying seniors and disabled veterans. We obtained an understanding through inquiry of the Office personnel and performed a walkthrough over this exemption, including both an approval and denial. Each individual applying for the senior exemption status must fill out an application and submit it to the County Assessor's Office. The County Assessor will research the following to determine eligibility: 1) the applicant must be at least 65 years old on January 1 of the year in which they apply, 2) the applicant must be the owner of record and must have been the owner of record for at minimum 10 consecutive years prior to January 1, 3) the applicant must occupy the property as their primary residence and must have done so for at minimum 10 consecutive years prior to January 1 and 4) must submit application by July 15. If the individual meets all these requirements, a letter of approval will be sent notifying them of their approval and new exemption status. Once approved, their information is entered into the RealWare system which calculates the amount of the exemption. The exemption amount is then sent to the County Treasurer who sends an updated bill to the taxpayer and sends the remaining amount due to the State for payment. Each individual may receive up to \$100k in exemptions.

For our walkthrough of the exemption process, we selected the account R0068650 from a listing of exempt accounts. We viewed the application from the property owner noting it was submitted on February 7 which was well before the July 15 deadline. We then viewed the birthdate listed on the application, noting the age requirements were met for the Senior Exemption at the time the application was submitted. Information on the individual's property was viewed in the County's RealWare system which lists all sales on the property. We noted the following information: the last sale on the property was in 1999, the individual lives in the home, and the home was used as their primary residence. Once the Assessor's Office reviews all the eligibility requirements, and approves the exemption, the RealWare system generates the amount of the exemption. We noted the RealWare system generated a \$100,000 exemption for this individual. We noted that this exemption notice was forwarded to the Treasurer's Office who sends an updated bill to the taxpayer and sends the remaining amount due to the State for payment. For our walkthrough of a declined exemption application, we selected account R0074393 from the exempt account listing noting it went through the same process as discussed above. After reviewing the individual's application and RealWare system, we noted this individual was denied the exemption status because they were not listed on the title of the home. It was noted through inquiry the individual's name applying for the senior exemption must be shown on the title during the application process.

Statutory Deadlines

According to State Statutes, the Assessor's Office operates under numerous deadlines throughout the year. The deadlines and our related testing are described as follows:

- According to CRS 39-1-111, the Board of County Commissioners is required to levy taxes no later than December 22, each year. As soon as levies have been made, the Board of County Commissioners must certify those levies with the Assessor. We tested the County's compliance with this deadline noting the certification of mill levies was filed on December 16, 2016 for the 2017 budget year.
- According to CRS 39-2-115, each county assessor shall file with the Property Tax Administrator two copies of an abstract of assessment of the county no later than August 25 of each year. In order to test compliance with this statute, we inquired of County personnel as well as verified with an employee with the Division of Property Taxation with the State of Colorado that the abstract was submitted timely. Through verification with the State, it was noted that the

General Operations and Internal Control Policies and Procedures within the Office

Our internal audit procedures also included obtaining an understanding of various processes, policies, procedures and internal controls within the Office, to determine that internal controls were designed and implemented to provide the Office with the opportunity for success in meeting the obligations of State Statutes, discussed above and security of County assets, so important to the successful operations of the office.

Quality Control Aspects of the Office's Internal Controls

The Assessor's Office currently employs 46 staff members that provide services to the following Assessor's Office departments/statutory requirements/classes:

- Personal Property (5 appraisers)
- Commercial/Industrial Property (6 appraisers)
- Agricultural Property (1 appraiser)
- Residential Property (12 appraisers)
- GIS Management (1 specialist, 1 analyst and 4 technicians)
- QC positions: Assessor Analyst (1)
- Mobile Home Property (2 abatement technicians)
- Transfer Property (2 transfer clerks)
- Senior Exemptions (1 technician)
- Administrative Staff (4 technicians)
- Vacant Land (1 appraiser)
- Compliance Analysts (2 appraisers)
- Chief Deputy Assessor (1)
- GIS Manager (1)
- Administrative Manager (1)

The above departments/categories of the Assessor's Office have supervisors that guide each category, along with an Administrative Manager, Chief Deputy Assessor and Assessor.

The internal control goal of the Assessor's Office is to provide transparency to the public in valuing all lands/property within Adams County, fairly and within statutory requirements. Each staff person within the Office has a role to play in accountability of the Office to the public and to the respective division/department of which they are a part.

One of the internal control requirements implemented within the Office with the new Assessor, requires the accountability of all appraisers and county property. In order to properly fulfill their duties, appraisers often are out in the field performing assessments. Because of this, the Assessor's Office maintains its own fleet of County-issued vehicles. These vehicles all indicate they are Adams County vehicles. Keys are kept in the Administrative Manager's office. Vehicles are assigned to each appraiser and are checked out in the morning and checked in prior to close of business. Each vehicle is equipped with GPS in order for the County to track where each vehicle has been. Mileage is also tracked by employees in a log-book upon usage. This information is also tracked in the County's system. This accountability tracking process allows for ease of transparency in reporting to the public the whereabouts of the Assessor's Office employees when performing their assigned functions.

Appraisers are also responsible for entering valuations into the system. The Assessor's Office has developed a quality control process to review and test all valuations entered into the system for accuracy as follows:

- Field Appraisers-enter all valuations into the system currently
- Assessor analysts-runs queries on valuation entries and performs a QC review if exceptions appear
- Chief Deputy-reviews valuations that appraisers enter
- Appeal process is also a check on valuations if challenged by property owners
- Abatements-mistakes in assessments and revisions are approved

Software Security

As part of our understanding of the appraisal process, software utilized to calculate, house and report valuations, properties and the updates, thereof, we inquired about the software security, backups of the software/data in cases of breeches or downtime and also how terminated employees are removed from system to insure the safety of the data within the Office.

In our testing of terminated employees within the Office for 2017 and the ITi controls surrounding employee access to RealWare software, which is the Office's assessment software, we determined that one employee is the administrator of the software. The software administrator assigns roles to all personnel based on staff level or position and has rights to see all aspects of the software, including changing personnel roles. As staff are set up in the system, the administrator assigns roles and issues a log-in for that employee. The administrator sets the log in to where the employee, upon initial log-in, must change the password. If the employee ever forgets the password, they will notify the Administrator who will issue another password to be immediately changed by the employee.

Certain roles in the system only show certain information. For example, a commercial appraiser can only see the commercial tab within the software so they cannot affect any other appraisal classification when entering in information. Observation: EB observed Cindy access employee listing with assigned roles.

When an employee is terminated, the administrator immediately takes all roles away from the terminated employee so they have no access to the system. It was noted that a user cannot be deleted in the system for historical purposes; however, all functions are taken away from them. Our examination of the terminated employees noted that any roles they once had were unchecked, leaving them with no rights to system information.

Because of the lack of support of the administrator in the security monitoring role, we recommend adding another level of Information Technology or Human Resources security to the RealWare system. Once an employee is terminated, HR or ITi should immediately remove them from the County's system in order to safeguard any information and to further support the role of the current administrator, in case of sickness, absence or any potential lapse in removal of employees. HR or ITi should have a secondary sign off in order to guarantee all access is removed upon termination and to protect all quality control parties involved in the process.

In most instances, the quality control process is segregated among several people, with the exception of the overall system review and termination of employee's functions, as mentioned above.

Overall Security

In evaluating risks within the internal audit function, all key employees within the Office being audited are interviewed about risks. The top official within the Office, is given priority in any interview in evaluating the highest risks that we evaluate in performing the duties of the Office. As in accounting processes and internal controls, the Assessor was asked what her number one concern was for her Office in safeguarding the assets of the County or 'what keeps you up at night'? The answer given was 'to perform the duties of my Office, the safety of my employees is my number one concern, priority and what keeps me up at night'.

Our government officials and their staffs, that provide services to the public and also are charged with protecting our constitution, are not always considered in the most favorable light, especially when statutory responsibilities require valuation increases, tax increases, or any increases that affect the public's pocket book and are outside of public control. Those officials are required to deal with a sometimes angry public, which raises concerns for those on the front lines in dealing with the potential for unusual or sometimes toxic groups of people. We believe identification of those elected officials and department heads in the line of fire, of which the Assessor and her staff are one, should be tantamount in the protection of our number one asset, our people. Once identified, protection through security measures such as armed guards, bullet proof glass, locking doors, cameras and immediate access to protection/first responders should be of utmost importance in eliminating this heightened risk to below maximum in all offices.

We understand that a security risk occurred recently at the County's Administrative offices and that heightened security measures are being implemented. We suggest that further discussions with those elected officials and department heads that have the responsibility of valuation, collecting, adjudicating and reporting to the public in precarious situations be further investigated, for better security for these offices and others within the County Administrative offices to further protect the most important assets of the County, its people.

Conclusions surrounding Adherence to the Internal Controls established within the Office

Based upon our internal audit performed surrounding the Adams County Assessor's Office and the internal control structure established within the office as it relates to those risks and procedures discussed above, we found no findings that indicate noncompliance with the Office internal controls. We did however, indicate areas that we believe should be considered for improvement to further protect those in supervisory positions as it relates to software security and physical security of the office that we bring to your attention, below. While no findings related to these recommendations were noted, we do believe consideration of these improvements will strengthen the overall internal controls of the office.

RESULTS AND RECOMMENDATIONS

Following are our observations and recommendations from the business objectives assessed along with management’s action plan to address these issues.

Recommendation #1

During our discussions with the Assessor and other office personnel, as well as observations during our internal audit procedures, we determined that the overall security measures presently in place for protection of the office personnel appear inefficient and may lack effectiveness, if tested.

Risk

Due to the nature of the Assessor’s Office statutory requirements to value, assess and report fairly on the property within Adams County, including hearing complaints and appeals, the nature of the Assessor’s Office statutory processes is cause for concern surrounding the safety of office personnel to be able to perform and carry out the duties of the Office, in a safe, secure and stable environment on a daily basis.

Recommendation

Protection through security measures such as armed guards, bullet proof glass, locking doors, cameras and immediate access to protection/first responders should be of utmost importance in eliminating this heightened risk to below maximum in the Assessor’s Office.

We understand that a security risk occurred recently at the County’s Administrative offices and that heightened security measures will be considered. We suggest that further discussions with those elected officials and department heads that have the responsibility of valuation, collecting, adjudicating and reporting to the public in precarious situations be further investigated, within the County Administrative offices to further protect the most important assets of the County, its people.

Action Plan

Person Responsible	Patsy Melonakis	Estimated Completion Date	Ongoing
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Discussions with the County’s top management, Board of County Commissioners and other elected officials will continue. Discussions surrounding improved security measures will be ongoing and incorporated into existing procedures. Leadership and managers will review, update, and train, as necessary, but not less than once per calendar year on each assigned new security process.

Recommendation #2

It was noted through our various walkthroughs of the procedures in place surrounding the Office's RealWare software that one person had access to all roles assigned within the software. This access includes administrative functions, appeals, list, and other functions within the program.

Risk

Having one person with total authority of the appraisal software who knows all applications within the software places both the person having that authority and the Office at risk. The greatest risk to the Office is simply override of controls over the program. The risk to the employee is lack of segregation of duties and potential for blame when something else goes wrong in the system outside of the lone individual's purview.

Recommendation

We recommend that added or secondary authority be assigned to ITi instead of only one person within the Assessor's Office.

Action Plan

Person Responsible	Estimated Completion Date
Patsy Melonakis	Ongoing

The Assessor's DBA in ITi will be requested to support the authority within RealWare to provide a secondary check on personnel roles within the Assessor's Office software by January 1, 2018. The specific risk is elevated with terminated employees' removal from the system to protect the Office, the personnel managing the Office and the terminated individual.