COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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August 14, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF THE OFFICE OF THE ASSESSOR'S SECURED PROPERTY SYSTEMS (Board Agenda Item 36-A, April 10, 2012)**

At the April 10, 2012 meeting, your Board instructed the Auditor-Controller (A-C) to review four areas in the Office of the Assessor (Assessor): 1) review the Assessor's Fiscal Year (FY) 2012-13 assessed value roll forecast; 2) conduct a comprehensive management audit; 3) review the Assessor's business operations and controls, including fiscal activities, and the secured and unsecured property systems; and 4) review properties with a 20% or greater reduction in value from December 2010 to January 2012 to determine appropriateness.

Status

Area 1: The assessed value roll forecast review was completed and issued to your Board in May 2012.

Area 2: The management audit was completed and issued in January 2013.

Area 3: The fiscal review was completed and issued in January 2013. The secured property system review is included in this report. The final portion of Area 3, the unsecured property system review, is ongoing and we will provide a report upon completion.

Area 4: The review of properties with value reductions in excess of 20% is complete. We are in the final review stage and anticipate issuing the report by the end of August.

We contracted with an independent consultant who is reviewing the Assessor's property valuations.

As mentioned, this report covers a portion of Area 3, a review of the Assessor's secured property valuation systems (Systems). The Systems are used to process and record the appraised values of secured property (real estate) in the County, which are used to establish the property taxes owed on each parcel.

Our review included determining whether the Assessor's Systems controls were adequate to ensure that only authorized appraisals were processed, and were processed correctly. In FY 2011-12, the secured property in the County had a total assessed value of approximately $1.1 trillion, and the Assessor staff used the Systems to process over 700,000 appraisals for value changes resulting from assessment appeals, decline-in-value requests, etc., totaling approximately $60 billion in value changes.

Results of Review

Our review disclosed that the Assessor does not have adequate documentation for some property appraisals. We also noted significant weaknesses in the Assessor's controls over changes in property values processed by the Systems. Specifically:

- The Assessor needs to ensure that property appraisals are properly documented. Forty-eight (24%) of the 200 appraisals reviewed did not have adequate documentation to support the appraised values (e.g., comparable sales data or property income/expense figures).

  The Assessor's attached response indicates that they will create policies/procedures for documenting property appraisals, train staff on the new policies, and conduct periodic quality assurance reviews to ensure compliance. They also indicate that they will enhance two Systems to prevent staff from processing appraisals without certain required documentation. The Assessor also reviewed the forty-eight appraisals identified by the A-C, and determined that two had enough support on file. Subsequent to our review, Assessor management was able to provide support for one of the two appraisals. Forty-seven appraisals still lack adequate documentation.

- The Assessor needs to ensure that staff enters property values in the Systems accurately, and needs to develop exception reports to detect valuation errors. We noted that staff entered property values into the Systems inaccurately and, in some cases, improperly. For example:

  - Appraisers and clerical staff entered inaccurate information for seven property value reductions, and undervalued the properties by a total of $22.5 million.

Errors in these value reductions resulted in $179,000 in inappropriate property tax refunds/under billings. We referred five of these value reductions to the A-C's Office of County Investigations (OCI). OCI reviewed the value reductions and concluded there was no evidence that the reductions were fraudulent.

- Appraisers overvalued an oil-producing property by $2.3 million because they did not consider limits on the use of the land.

- Appraisers undervalued a commercial property by $2.5 million because they inaccurately coded a parcel change input document.

The Assessor's response indicates that they have corrected all the errors, and processed the appropriate tax billings. They also indicate that they will remind staff of proper parcel value change procedures, and will enhance the Systems to help prevent data entry errors and valuation errors for oil-producing properties. The Assessor also indicates that they will develop and review exception reports for high-dollar and percentage property value reductions.

- The Assessor needs to ensure that manual property value change forms are properly approved, supervisors do not approve their own work in the Systems, and staff do not use their supervisors' access to approve their own appraisals in the Systems.

  Forty-three (43%) of the 100 manual property value change forms reviewed were not signed by the staff appraisers who did the appraisals, or were only signed by the Supervising Appraisers. In addition, six (33%) of the 18 value reductions reviewed that were over $5 million did not have the required higher-level approvals. The Assessor needs to ensure that staff signs all manual value change forms they complete, and enforce existing policy that all value changes are properly approved.

  Supervising Appraisers electronically approved 12,876 of their own appraisals during FY 2011-12. Each of these appraisals were completed with effectively no secondary review. Staff appraisers also approved at least 29 of their own appraisals, and may have approved an additional 54 of their own appraisals using their supervisors' Systems access.

  The Assessor's response indicates that they reminded staff to ensure manual value change forms have the appropriate approvals, and will conduct quality assurance reviews to ensure compliance. They also indicate that they made changes to the Systems to prevent all users from approving their own appraisals, and to require higher-level approvals in the Systems, instead of on manual forms, when feasible.

- The Assessor needs to eliminate an override field in two of its Systems. We noted data entry inaccuracies in the field that resulted in significantly undervalued properties, including instances where staff dropped zeros (e.g., a $4,500,000 value was entered as $450,000). As mentioned, undervaluing properties has resulted in property tax refunds/under billings.

  The Assessor's response indicates that they will not eliminate the override field because it is necessary for certain types of appraisals, such as Economic Unit appraisals. However, they indicate that they will improve controls for overrides by changing the Systems so appraisers are required to document the reason for an override, and so appraisers do not need to use the override field to round property values. The Assessor also indicates that they developed a report to identify and review unusual valuations processed in the override field.

  While the Assessor's alternative measures will help reduce the risk of inappropriate valuations in the override field, we do not agree that the override field is necessary. We will work with the Assessor on potential Systems changes, and will evaluate their alternative measures in a follow-up review after their corrective actions are fully implemented.

- The Assessor needs to ensure adequate controls over Systems access, including eliminating a Systems function that is designed for managers/supervisors to anonymously share their access, terminating access of employees who leave or transfer, and reviewing employees' Systems access on an annual basis.

  The Assessor's response indicates that they will not eliminate the access sharing function, but will improve controls so that staff's activity is tracked when using their supervisor's access and so staff cannot approve their own work when using their supervisor's access.

  While the Assessor's alternative measures will help improve accountability over shared access, the access sharing function violates County Fiscal Manual (CFM) and Board of Supervisors Information Technology (IT) Policy, and we believe alternate access roles can be developed to further improve control over designating backups. We will work with the Assessor on potential Systems changes and will evaluate their alternative measures in a follow-up review after their corrective actions are fully implemented.

  The Assessor agreed to establish procedures to immediately remove access when employees terminate or transfer, and to annually review users' systems access.

- The Assessor needs to ensure that property appraisals are completed timely. 7,094 (7%) of the 97,433 transfer appraisals for FY 2011-12 were not processed within the Assessor's 120-day goal. On average, these untimely appraisals took 225 days to complete. We reviewed 20 of the untimely transfer appraisals and noted that 11 (55%) were not completed in time to meet the years' tax role. This includes six that have not yet been completed and could result in $4.1 million in supplemental taxes being due to the County and local taxing agencies once Assessor staff process them. Four other transfers were delayed beyond statutory time limits resulting in $66,000 in lost tax revenues. While it appears that the majority of the 7,094 delays were not lengthy enough to result in lost taxes, many of the late appraisals resulted in delayed tax revenues. Assessor needs to develop exception reports to identify and resolve appraisal delays that could result in the deferral or loss of tax revenues.

  The Assessor's response indicates that they have processed five of the six outstanding transfer appraisals, developed a formal policy for processing transfer appraisals timely, and enhanced the transfer appraisal system to track appraisals over 120 days old and to require higher-level approval to exceed 120 days.

Details of these and other findings and recommendations are included in the attached report.

Acknowledgement

We discussed our report with Assessor management who generally agreed with our findings and have already implemented some of our recommendations. While the Assessor's corrective action plan indicates they will not implement two of our recommendations, the Assessor indicates they will implement alternative measures to address the weaknesses noted in our review. The Assessor's response is attached.

We thank Assessor management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:MP

Attachments

c: Santos H. Kreimann, Chief Deputy Assessor, Office of the Assessor
William T Fujioka, Chief Executive Officer
Sachi A. Hamai, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee

REVIEW OF THE ASSESSOR'S SECURED PROPERTY SYSTEMS

Background

The Office of the Assessor (Assessor) is responsible for appraising the value of real and personal property in the County. Property taxes are imposed based on the values determined by the Assessor.

The Assessor uses the Paperless Transfer (PTS), Decline-in-Value (DIV), and AS/400 Secured Data Entry (SDE) systems (Systems), to process secured property (real estate) appraisals. The property values from the Systems are sent electronically to the Secured Property Database (Secured Database), and serve as the basis for levying property taxes. In Fiscal Year (FY) 2011-12, secured property in the County had a total assessed value of approximately $1.1 trillion, and the Assessor used the Systems to process over 700,000 appraisals. The appraisals resulted in $60 billion in changes to assessed property values.

We reviewed the Assessor's appraisal documentation, and procedures and internal controls over the Systems for compliance with County fiscal policies. Our review included evaluating controls over Systems access and real property valuations, including the transfer of valuations to the Secured Database.

Real Property Appraisals

The Assessor's staff appraise real property when events such as ownership transfers, declines in market value, or new construction occur. Assessor's appraisal staff document the appraisal in a manual parcel file, obtain their supervisor's signature on a value change form, and submit the form to clerical staff for data entry into the Systems.

Appraisers can also use the Assessor's appraisal Systems to calculate property values based on comparable property sales and to document appraisals. The Systems then generate a value change for the supervisor to approve electronically in the Systems.

Appraisal Documentation

The Assessor's Real Property Handbook requires staff to document all appraisals in the parcel file or appraisal Systems. The appraised value should be supported by an analysis of comparable property sales or property income/expense figures.

We noted that forty-eight (24%) of the 200 appraisals reviewed did not have adequate support for the appraised values. Specifically:

- Twenty-eight (14%) of the appraisals did not have enough evidence in the parcel file or in the appraisal Systems describing how the value was determined, such

as an analysis of comparable property sales, or documentation of the income/expense figures used.

- Twenty (10%) of the appraisals had a comparable sales analysis on file, but appraisers valued the properties as much as $496,000 (62%) higher/lower than the analysis indicated, without documenting how or why adjustments were made.

Assessor management needs to ensure that property appraisals are properly documented in the parcel files or appraisal Systems.

Recommendation

1. **Assessor management ensure that all property appraisals are properly documented in the parcel files or appraisal Systems.**

We also contracted with an independent consultant who is reviewing the Assessor's property valuations. We will report these results by the end of August as part of Area 4 of our Assessor's reviews.

Property Valuations

Assessor's Policy 5211-01-2 requires appraisers to value natural resource properties (e.g., oil and gas producing property) at market value, with a reduction based on limits on the use of the land (i.e., property that has oil or gas present can only be used to harvest the oil/gas, and not for other purposes).

We reviewed 152 property value changes for which the Assessor had documentation, and noted nine (6%) were not accurate or did not comply with the Assessor's policy. Specifically:

- Seven property values were entered inaccurately in the Systems. For example, an appraiser entered a property valued at $4.5 million as $450,000. In total, the appraisers' entry errors undervalued the seven properties by $22.5 million, or 71% of the actual appraised value of $31.7 million, resulting in approximately $179,000 in inappropriate tax refunds and under billings.

  While Assessor staff were able to identify and correct four of the seven errors, the County lost approximately $600 in interest that was paid on one of the erroneous tax refunds. The other three errors, totaling $72,000 in refunds/under billings, were still not corrected for up to eight months after they occurred. We referred five of these value reductions to the Auditor-Controller's (A-C) Office of County Investigations (OCI). OCI reviewed the value reductions and concluded there was no evidence that the reductions were fraudulent.

- One oil producing property was overvalued by $2.3 million because appraisers did not reduce the value to reflect limits on the use of the land (impairment).

While Assessor staff corrected this error after the property owner complained, Assessor management should establish controls to prevent the valuation of natural resource properties without impairment reductions.

- One commercial property was undervalued by approximately $2.5 million because staff did not correctly process a parcel change in the Systems, resulting in $95,000 in inappropriate tax refunds. While these refunds were all returned to the County, Assessor's management needs to resolve the inappropriate tax refunds in the Systems and remind staff of parcel change procedures.

We also noted that Assessor does not have sufficient exception reports to identify properties with potentially inappropriate value reductions, such as appraisals with high percentage and/or dollar value declines mentioned above.

Assessor management should implement the following recommendations.

Recommendations

Assessor management:

2. **Resolve the $167,000 ($72,000 + $95,000) of inappropriate tax refunds/under billings, and remind staff of parcel value change procedures.**

3. **Ensure natural resource properties are valued with consideration of the property impairments.**

4. **Develop exception reports to identify and review significant property value changes, such as large percentage or dollar value declines, and require managers to review the reports and validate the value changes.**

Approval Controls

County Fiscal Manual (CFM) Section 8.3.3 requires independent approvals and controls over information input into electronic systems. In addition, Assessor's Policy 1502-1-8 requires appraisals to be reviewed/approved by a Supervising Appraiser, with higher-level approvals required for property value reductions based on the amount of the reduction.

We noted that the Assessor staff do not always obtain required approvals for the appraisals entered into the Assessor's Systems. Specifically:

- Supervising Appraisers electronically approved 12,876 of their own appraisals during FY 2011-12. Each of these appraisals were completed with effectively no secondary review. In addition, 43 (43%) of the 100 manual property value

change forms reviewed were only signed by the supervisors. This may indicate that the staff appraisers did not sign the change forms, or the supervisors approved their own work on these changes.

- Staff appraisers and Information Technology (IT) support personnel may have inappropriately used a Systems access sharing feature (discussed later in the Access Controls section) to approve 83 of their own appraisals using their supervisors' access. In 29 of these instances, staff admitted that they approved their own appraisals with their supervisor's knowledge.

- Appraisers processed six (33%) of the 18 value reductions reviewed, that were over $5 million, without the required higher-level approvals in the manual parcel files.

Assessor management indicated that, based on previous issues with appraisals that were not approved, they revised their property value change forms in February 2011 to require a supervisor's approval. However, we noted instances where staff appraisers continued to use the old forms, increasing the risk that appraisals could be input into the Systems without a supervisor's approval. We also noted that clerical staff entered 394 property value changes in the Systems without the required supervising clerk's review for accuracy.

The approval issues and the valuation errors noted above were not identified by the Assessor's supervisors. This indicates that the supervisors are not adequately reviewing their staff's work. The Assessor management should implement the following recommendations.

Recommendations

Assessor management:

5. **Immediately prevent Systems users from approving their own work, and ensure manual appraisals are signed by the appraisers and approved by a supervisor/manager.**

6. **Ensure appraisers obtain the required higher-level approvals for value reductions over $5 million, and evaluate enhancing the Systems to require electronic approvals of high dollar and percentage value reductions.**

7. **Review the appraisals where it appears that staff entered and approved value reductions with their supervisor's access to ensure they were appropriate, and report the results to the A-C within 60 days.**

8. **Reinforce the requirements to only use current value change forms, and that clerical staff must reject value change forms that are outdated or do not have the required signatures.**

Property Value Overrides

Appraisers use the Assessor's online appraisal Systems to generate comparable property sales, and to estimate property values for appraisals. After calculating a property value based on comparable sales, appraisers can override the System-generated calculation by up to $1,000 to round off the new property value, as specified in Assessor's Policy 5049-01-0.

We noted that appraisers do not always use the Value Override (VO) field as intended. Specifically, approximately 22,000 (5%) of the 480,000 overrides processed during FY 2011-12 were for more than $1,000, up to $4 million. Supervising Appraisers indicated that some of these overrides were data entry errors when entering the rounded value, as noted in the Property Valuations Section above. However, the Supervising Appraisers also indicated that other overrides were not data entry errors, but were rounded by more than $1,000, which violates the Assessor's policy.

We also noted that appraisers sometimes used the VO field to enter their opinion of the property value based on information they obtained outside the Systems (e.g., other comparable sales). However, the Systems have other fields for staff to enter their opinion of value, so management can track and identify the appraisals staff perform outside the Systems. The VO field should not be used to enter these non-System derived values.

To limit misuse of the VO field, Assessor management should evaluate modifying the Systems to automatically round property values, and eliminate the VO field. Assessor management should also establish policies and procedures clearly describing how appraisers should enter their opinion of property values in the Systems.

Recommendations

Assessor management:

9. **Evaluate modifying the Systems to automatically round property values, and eliminate the Value Override field.**

10. **Establish procedures clearly describing how appraisers should enter their opinion of property values in the Systems, and monitor for compliance.**

Access Controls

CFM Sections 8.6.3 and 8.6.4 require departments to limit system access based on each user's responsibilities, periodically review user access to ensure it is authorized and appropriate, ensure system audit trails identify the individual who performed each transaction, and require that passwords are complex to maintain their effectiveness. These controls enhance system access security and data integrity.

Sharing System Access

The Assessor established a function in two of their systems allowing managers and supervisors to share their access with other users, including lower-level staff, and for IT/Support staff to use any other user's access at any time. Any transactions staff perform using the borrowed access, such as property value changes, are recorded in the borrowed user's name.

As discussed earlier, we noted numerous instances where staff told us they used their supervisor's access to approve their own work, and additional instances where staff may have used their supervisor's access to approve their own work. However, since the Systems record all shared activity in the supervisors' names, we could not always determine what action staff took.

Assessor management indicated that they established the sharing function to allow managers and Supervising Appraisers to designate back-ups to distribute the work in their absence, and for IT/Support staff to view information and troubleshoot system issues. However, sharing access and approval authority violates CFM Section 8.6.4 and Board of Supervisors Policy 6.101, and significantly increases the risk for inappropriate activity, such as inappropriate approvals.

Recommendation

11. Assessor management immediately eliminate the Systems access sharing function, and establish alternate Systems access roles for designated back-ups as necessary.

Inappropriate User Access

We reviewed Systems access for 40 staff, and noted 13 (33%) have inappropriate access. Specifically:

- Five clerical staff have unneeded access to approve value changes in the SDE system, and are able to approve their own work.
- Four appraisers have unneeded access to the SDE system.

- Four appraisers have unneeded IT support access in PTS/DIV, and the access allows them to use other users' access at any time.

We also reviewed all Systems users and noted 12 who left the Assessor between May 2009 and November 2011, but their access was not terminated. Although the access for the 12 out-of-service employees and 13 instances of inappropriate access were not used, Assessor management should cancel terminated employees' access and restrict users' access based on work assignments.

We also noted that the following access should be separated:

- Approximately 500 appraisers, who process decline-in-value reviews in DIV, can also initiate reviews of specific properties through the Assessor Public Service System without management approval or the homeowner's consent. This access increases the risk for inappropriate activity.

- At least six programmers, who develop Systems changes, can also implement the changes they design without a separate review, increasing the risk of unauthorized, inaccurate, or untested changes going undetected.

  One of these programmers also regularly designs and implements Systems changes without a separate approval or review for accuracy. Assessor management should ensure these changes were appropriate, and restrict programmer access as required by CFM Section 8.2.2.

Assessor management should implement the following recommendations.

Recommendations

Assessor management:

12. **Cancel terminated employee's access, and restrict users' access to the Systems based on work assignments.**

13. **Separate the duties of initiating and processing decline-in-value reviews, and the duties of programming and implementing Systems changes.**

14. **Determine the accuracy of Systems changes processed without appropriate review/approval.**

Access Control Procedures

We identified several administrative and procedural weaknesses that contributed to the access issues noted above:

- The Assessor does not have written policies and procedures to create, limit, and periodically review users' access to the Systems as required by CFM Section 8.6.4. This includes properly defining system access roles and their capabilities.

- The Assessor does not always document approval for access assignments and changes as required by CFM Section 8.6.3. Of the 40 Systems' users reviewed, 38 (95%) did not have documented approval for their access levels, including the 13 staff with inappropriate access mentioned in the section above.

- The Assessor does not monitor users with high-level Systems access as required by CFM Section 8.6.4. Employees also share two generic log-on identifications (IDs) with high-level access, including the ability to make changes to the Systems programs, so there is no record of who used the IDs.

- The SDE system passwords are not case-sensitive as required by CFM Section 8.6.4.

To ensure information in the Systems is safeguarded, and minimize the risk of inappropriate activity, Assessor management should implement the following recommendations.

Recommendations

Assessor management:

15. **Establish policies and procedures to create, limit, and periodically review system access roles, and document approval for access assignments and changes.**

16. **Monitor users with high-level access, and ensure all user IDs are assigned to specific individuals.**

17. **Ensure passwords in the Secured Data Entry system are case-sensitive.**

Transfer Appraisal Processing Delays

Assessor management established a goal for staff to appraise properties that transfer ownership within 120 days of receiving the deed. This goal ensures property owners get timely tax bills based on their property's updated value, and that the County and local agencies receive the correct property taxes. California Revenue and Tax Code Section 5097 generally prohibits the County from correcting tax bills after four years.

We reviewed all 97,433 transfer appraisal assignments for FY 2011-12, and noted that 7,094 (7%) were not processed within the Assessor's 120-day goal, including 508 that took over a year to process, and four that took over four years. Also, 11 (55%) of the 20

untimely appraisals reviewed were not completed in time to meet the year's tax roll, which delayed assessments and property tax receipts. Specifically:

- Five of the 11 untimely appraisals completed during FY 2011-12 were for transfers that the Assessor received as far back as FY 2007-08. While the completed appraisals generated $179,000 in supplemental tax bills for prior years, the County could have billed and collected these amounts in prior years if Assessor staff had completed the appraisals timely. The County also lost approximately $66,000 in taxes because, in four cases, the appraisal delays and State law prevented the County from billing for tax periods more than four years old.

- Six of the 11 appraisals were still unprocessed as of September 2012, even though the Assessor received the transfers as far back as FY 2010-11. Based on Assessor's sales data for these properties, the property owners could owe approximately $4.1 million in supplemental taxes once staff process the appraisals.

We also noted that the Assessor does not have exception reports to help monitor appraisals for compliance with their 120-day processing goal, or identify and resolve appraisal delays that could result in lost taxes. Assessor management also indicated that staffing/workload constraints or complex transfers caused the delays above.

Assessor management needs to complete the six pending transfer appraisals noted in our review, develop exception reports to identify appraisal backlogs, and monitor/expedite untimely appraisals.

Recommendations

Assessor management:

18. Complete the six pending transfer appraisals noted in our review.

19. Develop monitoring reports to expedite untimely transfer appraisals, and evaluate if staff need to be re-assigned to address backlogs.

Standards and Procedures

CFM Section 8.2.3 requires departments to have standards and procedures to guide supervisors and staff in performing their duties. We noted that the Assessor does not have written standards/procedure for some of the processes we reviewed, including the processing and documenting of property value changes and overrides, monitoring appraisal backlogs, correcting property value posting exceptions, and testing and documenting Systems changes.

To ensure staff are aware of their responsibilities, Assessor management needs to develop or update their policies and procedures in these areas.

Recommendation

20. Assessor management develop or update their policies and procedures for the areas noted in our review.

Secured System Replacement

The Assessor developed the SDE system in the 1970s for staff to process all property value changes, then added the PTS and DIV systems in 2005 and 2010 to assist appraisers in expediting decline-in-value and ownership transfer value changes. As mentioned, all three systems feed property values to the Secured Database.

These systems are outdated, inefficient, and/or contribute to the weaknesses noted in our review. For example, the Assessor continues to use the SDE system to process manual value changes, even though the process is inefficient, and the manual approvals are difficult to enforce and easier to circumvent. Also, the PTS/DIV systems cannot handle some complex appraisals, such as non-residential appraisals or land/improvement only transfers.

The SDE system program is also 40 years old, and limits the Assessor's ability to process property transactions timely. For example, the SDE system cannot post value changes to the Secured Database in real-time, and the Assessor has to process all transactions over the weekend to prevent the SDE system from crashing. Thus, transactions sometimes take up to a week to be updated within the Secured Database.

Assessor management acknowledged that their Systems need to be replaced, but told us that, in 2007, they put the replacement efforts on hold because they could not find a qualified vendor. To improve control and efficiency of the appraisal process, the Assessor should develop a plan that includes timeframes and milestones to replace their Systems.

Recommendation

21. Assessor management develop a plan, including timeframes and milestones to replace their Secured Property Systems.

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SANTOS H. KREIMANN
CHIEF DEPUTY ASSESSOR

June 7, 2013

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Santos H. Kreimann
Chief Deputy Assessor FOR SHK

SUBJECT: REVIEW OF THE OFFICE OF THE ASSESSOR'S SECURED PROPERTY TAX SYSTEMS

Attached is the Assessor's response to the recommendations contained in the Review of the Office of the Assessor's Secured Property Tax Systems conducted by your office. Please see the attached document which reflects our responses to the recommendations.

If you have questions or need additional information, please contact Sharon Moller, Assistant Assessor of Operations at (213) 974-3101.

SHK:SM:jc

Attachment

County of Los Angeles
Office of the Assessor
Response to Recommendations – Secured Property Tax Systems Audit

Appraisal Documentation

1. **Assessor's management ensure that property appraisals are properly documented in the parcel jacket or appraisal systems.**

Department Response: AGREE

Although it is standard appraisal practice to consider all sources of information (including information provided by the property owner) and exercise Appraiser experience and judgment in determining a value conclusion, the department recognizes that these judgments may not be sufficiently noted in certain appraisals. Assessment Services/Appraisal Standards will create policies and procedures for sufficient documentation of the various types of property appraisals. This shall include guidelines of noting where supplementary information that is considered but not contained in a valuation is located. Real property appraisal staff will be required to adhere to these requirements which will also be added to our training program. Periodic quality assurance reviews will be conducted following implementation in order to ensure compliance. Additionally, the following system changes shall be made to enhance the documentation of and justification for value conclusions:

1. Both PTS and DIV systems shall prohibit an appraisal to be submitted without a comment when an appraiser selects a value to enroll other than the calculated appraised value.
2. Both PTS and DIV systems shall prohibit a value conclusion to be submitted without a comment if it is submitted with the "Enroll Other" value option.

Lastly, the department reviewed the identified parcels with which the audit report found exceptions. Internal review discovered that of the 48 parcels identified 2 parcels had appropriate documentation in the parcel jacket or appraisal notes in the systems and the remaining 46 parcels had limited documentation in the appraisal notes. In five of these cases, as staff reviewed the valuations, a new appraisal was performed which validated the value conclusion of the original enrollment (see the attached Report Findings).

Property Valuations

2. **Resolve the $167,000 ($72,000+$95,000) of inappropriate tax refunds/under-billings, and remind staff of parcel value change procedures.**

Department Response: AGREE

The errors have been corrected and the appropriate billing has been processed. In order to prevent future occurrences, we have implemented a warning system that will alert both the appraiser and supervisor if the enrolled value is outside of reasonable parameters. We will also run a query at the end of the season as an added precaution to identify outliers.

The refund that was associated with a parcel change resulted from a particularly complicated series of parcel splits and combinations. The assessments on all of these parcels were reviewed and corrected where necessary by the Special Investigations unit. The department shall remind staff of appropriate parcel change procedures.

3. **Ensure natural resource properties are valued with consideration of the property impairments.**

Department Response: AGREE

County of Los Angeles
Office of the Assessor
Response to Recommendations – Secured Property Tax Systems Audit

In this case, the appraiser was unaware that this was an impaired property that should have been referred to another section for processing. Impaired properties are identified by their cluster number. Our procedures require referral of impaired properties to the Natural Resources section (Region 30) after fee valuation. Natural Resources is responsible for calculating the value of the impairment prior to enrollment.

In order to prevent future occurrences, the Property Transfer and Decline-in-Value systems have been programed to include an alert on impaired properties, so that appraisers can easily identify those parcels that must be referred to Region 30.

4. **Develop exception reports to identify and review significant property value changes, such as large dollar value and/or percentage value declines, and require managers to review the reports and validate the value changes.**

Department Response: AGREE

The department previously created Decline-in-Value reports that identify reductions greater than one (1) million dollars. These reports are reviewed annually. Although, the implementation of Recommendation 6 appears to eliminate the need for this report, the department shall continue producing the report annually to validate the controls implemented from this Recommendation. The department shall also create reports that indicate percentage reductions for review and validation. These reports will be generated, minimally, on an annual basis in June once the annual decline-in-value reviews are completed. These reports shall be distributed to managers for review and action where appropriate. The department's Quality Assurance section will also conduct periodic reviews to ensure accuracy and compliance.

Approval Controls

5. **Immediately prevent System users from approving their own work; and ensure manual appraisals are signed by the appraisers and approved by a supervisor/manager.**

Department Response: AGREE

Changes to the Paperless Transfer System (PTS) and Decline-in-Value (DIV) systems have been made to ensure that no one can approve their own submitted work. Staff has been instructed to ensure that any manually submitted documents contain the appropriate preparer and approval signatures.

The Quality Assurance (QA) section will periodically review the manual documents to ensure that policies and procedures are followed.

The department currently has manual policies and procedures to prevent this situation for the Secured Data Entry (SDE) system. However, no system controls are in place to prevent this. In order to implement this recommendation, the department would need to procure the services of a contract programmer to modify the programs that were developed by an outside contractor in 1998. This makes immediate system changes prohibitive; however, the department is pursuing a replacement of the existing legacy systems. This replacement system will be developed in compliance with the recommended controls.

6. **Ensure appraisers obtain the required approvals for value reductions over $5 million; and evaluate enhancing the Systems to require electronic approvals of high dollar and percentage value reductions.**

Department Response: PARTIALLY AGREE

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The department agrees with this recommendation as it applies to our Decline-in-Value system (DIV). This is the only system that calculates differences between the enrolled value and value to be enrolled that result from a review. The system enhancement to DIV will escalate approvals according to department policy for values prescribed in our Policy and Operating Practice Manual Section 1502-1. Additionally, policy clarifications shall be made to distinguish changes of value that are the result of a new assessment versus a correction to an existing roll.

Pursuant to Policy Memo 1502-1, manual processes exist that requires all appropriate signatures prior to submitting processing documents for entry into Secured Data Entry (SDE). Clerical has been trained to reject any document that does not have the appropriate signatures. QA shall perform periodic reviews to ensure that the procedures are followed.

PTS and SDE will require separate, different, and difficult changes in order to implement this recommendation that prohibit its implementation. To implement these changes in PTS the department would be required to make design changes to the system database design and interface. Secured Data Entry (SDE) is a batch entry system. No facility has been identified that would allow values in the data entry to be compared with values on the mainframe. This makes immediate system changes prohibitive; however, the department is pursuing a replacement of the existing legacy systems. This replacement system will be developed in compliance with the recommended controls.

7. **Review the appraisals where it appears that staff entered and approved with their supervisor's access to ensure they were appropriate; and report the results to the Auditor-Controller within 60 days.**

Department Response: AGREE

The Assessor's Quality Assurance section has reviewed these valuations. Upon close review, no irregularities were discovered in the valuations. As such, no additional review is required for these parcels.

The implementation of Recommendation 11, below, shall prevent this from occurring in the future in both the PTS and DIV systems.

8. **Reinforce the requirement to only use current value change forms, and that clerical staff must reject value change forms that are outdated or do not have the required signatures.**

Department Response: AGREE

Staff has been informed to use the proper value change forms and all electronic versions of these forms were reviewed to ensure that only the current forms are available.

Clerical staff was retrained on signature requirements in October 2012. Clerical procedures were revised to reflect the importance of proper signature requirements and have been uploaded to the department intranet. QA will conduct periodic reviews to monitor compliance of both current form usage and signature requirements.

Appraisal Standards shall continue to annually review and monitor forms to ensure that only the most current versions are available to staff.

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Property Value Overrides

9. **Evaluate modifying the systems to automatically round property values, and eliminate the Value Override field.**

Department Response: PARTIALLY AGREE

The Value Override is needed to properly process certain types of valuations. For example, the department must value Economic Units consisting of many parcels that must be considered as one valuation unit. Appraisers perform a market valuation using the primary parcel but consider all of the impacted parcels. The total market value is derived, but must then be allocated among all of the parcels. The Value Override field allows for this necessary allocation of value.

However, the department will review Real Property Handbook Section 5049-1, *Minimum Values and Rounding off Land or Improvement Values,* to validate and/or update the policy, and staff will be trained on any updates. Additionally, both PTS and DIV systems shall be modified to automatically round total values so that appraisers will not have to use a value override to round the value. Additionally, a control shall be implemented that will require an appraiser to provide a comment if they use the value override feature. If they do not make a comment, they will be unable to proceed with the appraisal process. This applies to the "Enroll Other Value" functionality in the value conclusion area of the systems as well.

Values that are used to make decisions shall also be comma formatted to make review easier and to reduce potential errors caused by data entry mistakes.

A query has been developed that identifies overrides that exceed standard rounding variations. This query will be periodically reviewed to ensure that they conform to policy.

10. **Establish procedures clearly describing how appraisers should enter their opinion of property values in the systems, and monitor for compliance.**

Department Response: AGREE

A user guide exists for PTS; however, it addresses the entire system. Formalized written policies and procedures will be created for the entry of appraisers' opinion of value. System modifications have been implemented to alert appraisers when large value changes are indicated. The department will also create a quick user guide that specifically identifies the appropriate methods for entering opinions of value. This information shall be distributed to all appraisal staff and periodically reviewed by Quality Assurance.

Both PTS and DIV systems shall be modified to automatically round total values so that appraisers will not have to use a value override to round the value. Additionally, a control shall be implemented that will require an appraiser to provide a comment if they use the value override feature. If they do not make a comment, they will be unable to proceed with the appraisal process. This applies to the "Enroll Other Value" functionality in the value conclusion area of the systems as well.

Sharing System Access

11. **Assessor's management immediately disable and remove the system access sharing function, and establish alternate system access roles for designated back-ups as necessary.**

Department Response: PARTIALLY AGREE

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This recommendation has been implemented in both the PTS and DIV systems. The department will continue to allow for the designation of a back-up; however, when the designated backup is acting on behalf of the supervisor, the systems will not allow the designee to approve valuations made by the supervisor or the backup supervisor. This creates direct audit linkages between every approval of an appraisal and the individual performing the approval. The DIV and PTS systems have been modified in a manner to ensure accountability, as follows:

1. Systems were modified to allow for supervisors to designate back-up staff;
2. Back-up staff may act as the supervisor on their behalf;
3. When back-up staff are acting on behalf of the supervisor and approving work, both the individual who performed the approval and the supervisor under whose authority the approval was made are captured and saved; and
4. In no case can any individual submit a valuation under their name and approve the valuation
    a. If staff is designated as back-up for the supervisor and is acting in that capacity, the system will automatically disallow that individual to approve any work they submitted to the supervisor on whose behalf they are acting.
    b. Any work that the supervisor performs or changes will be escalated to their manager for secondary approval.

Inappropriate User Access

12. Cancel terminated employee's access, and restrict users' access to the systems based on work assignments.

Department Response: AGREE

When an employee leaves the department, their network ID and application access is disabled. Although employee information is retained for audit trail purposes, it cannot be used to access the system. To improve the system access restriction, Administrative Services will establish new procedures to provide an immediate update of an employee's work status, including termination, relocation, and reassignment.

The department will review all User authority for Secured Data Entry and create a procedure for an annual review of all users and access levels by October 2013. This will ensure that any staff that have terminated employment with the Assessor's Office do not remain in the system.

13. Separate the duties of initiating and processing decline-in-value reviews, and the duties of programming and implementing system changes.

Department Response: PARTIALLY AGREE

This recommendation is in two parts:

1. The department has a need for any staff to be able to initiate DIV reviews because of public service interactions. In order to ensure that the individual who initiated the review is not the same individual who processes the review, the department will develop an audit report that will identify any parcel that meets this condition and review the processing.

2. The County Fiscal Manual provides for the ability to program and implement systems changes if no alternative exists and if an appropriate policy and log are developed. This is to ensure that management may monitor any system changes. Currently, the department has a need for a programmer to access production systems; however, we will develop policies and procedures to govern and log any direct access to production

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systems by development staff. These procedures will be complete by June 30, 2013. Additionally, cross training is being implemented so that the one developer is not the only individual that can perform certain tasks. To the extent possible, the department will separate the responsibilities of developing system changes and the implementation of those changes. Any activity that crosses this separation will be documented, reviewed by supervisory staff, and made available for management review.

The department will begin reviewing data changes to production DIV and PTS to ensure that the data was changed appropriately. Beginning with the 2011 and 2012 roll years, the department will create review lists that contain both the actions that were requested to be performed and the resulting data change. These lists will be provided to the Quality Assurance section for periodic review.

14. Determine the accuracy of system changes processed without appropriate review/approval.

Department Response: AGREE

The department agrees with this recommendation. In order to ensure that all system changes are reviewed and approved, the department will develop procedures to require ITD Supervisors and Supervising Appraisers to review, validate, and approve all systems changes before they are implemented into production. By June 30, 2013, a form will be created to describe the system change and document all required approvals. The department will develop an Application Release Tracking System to log and monitor all system changes.

The department will begin reviewing data changes to production DIV and PTS to ensure that the data was changed appropriately. Beginning with the 2011 and 2012 roll years, the department will create review lists that contain both the actions that were requested to be performed and the resulting data changes. These lists will be provided to the Quality Assurance unit to review and ensure the values are reflected on the assessment roll. Technical staff indicates that the effort required to retrace and validate every change that has been made to the systems would be time prohibitive. No inappropriate data changes have been identified, but, as indicated, tighter controls, approvals and reporting will enable management to track and monitor any changes made in the future.

Access Control Procedures

15. Establish policies and procedures to create, limit, and periodically review system access roles, and document approval for access assignments and changes.

Department Response: AGREE

Every system in the department will be reviewed and policies will be established among ITD, Human Resources, Management Services, and operations management to ensure that termination clearance procedures are adhered to. Additionally, the department will perform a review of permissions and account access to our systems beginning 2013. These reviews will be conducted annually and completed by September 30 each year.

Policies and procedures will be developed to ensure that any changes to system access are documented, reviewed, and approved by management.

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16. Monitor users with high level access, and ensure all user IDs are assigned to specific individuals.

Department Response: AGREE

The department agrees with this recommendation and will purchase auditing software for monitoring access. In addition, procedures will be developed to eliminate sharing of user IDs on the IBM iSeries. The software will allow for any necessary management reporting.

This software will require an upgrade of department hardware because enhanced auditing logs need greater capacity and processing. Relevant software will be reviewed and a recommendation will be made within six (6) months.

To better monitor users with high level access, the department will create unique individual access IDs to the Secured Data Entry (SDE) system.

This recommendation only applies to the SDE system. DIV and PTS are accessed through unique network logins and are in compliance.

17. Ensure passwords in the Secured Data Entry System are case-sensitive.

Department Response: AGREE

The department agrees with this recommendation and has implemented it in the Secured Data Entry System. Passwords are now case sensitive.

Transfer Appraisal Processing Delays

18. Complete the six pending transfer appraisals noted in our review.

Department Response: AGREE

The six pending transfer appraisals were referred to the appropriate regions for review and, with the exception of one parcel, have since been valued and enrolled. The remaining unvalued transfer is for a complex property involving multiple parcels, a change-in-use, major renovation, and "supergraphics" on two sides of the building. Additional information has been requested from the buyer, but has not been provided. Although it is our preference to complete an appraisal with the property-specific information deemed necessary to ensure fair market value, the valuation of this property will use the information available and be enrolled by roll closure.

It should be noted that the 120-day transfer valuation guideline was created and intended for District Appraisals which values less complex properties such as single-family homes, condominiums, and smaller commercial/industrial properties. Of the six pending transfer appraisals, five were for larger and/or complex properties that fell within the responsibility of the Assessor's Major Real Property Division. These complex properties are typically allowed more time for transfer enrollment due to the more difficult nature of the assignment and the property-specific information needed to determine fair market value. In the case of these Major Real Property valuations, the enrollment of a transfer within the assessment year is the main objective. However, the valuation of these properties was excessive and more care will be taken to ensure more timely assessment and conformance with the Major Real Property Transfer Guidelines.

The remaining transfer appraisal was the responsibility of District Appraisals and has now been enrolled. According to appraiser comments on PTS, the transfer was delayed by parcel change processing.

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19. Develop monitoring reports to expedite untimely transfer appraisals, and evaluate if staff need to be re-assigned to address backlogs.

Department Response: AGREE

This recommendation has been implemented in the Paperless Transfer System (PTS). Policy and Operating Practice Manual Section 1500-04 has been created to provide District Appraisal guidelines for timely transfer valuation and enrollment. An On-Line Performance Audit Report has been developed to track unvalued transfers remaining in PTS for over 120 days, and appropriate higher level management approval will be required to exceed specified time limits. A policy for Major Appraisals has also been documented and will be included in the Policy and Operating Practice Manual.

The evaluation of staffing needs is an ongoing activity that the department performs to ensure that workloads are balanced.

Standards and Procedures

20. Assessor's management develop or update policy and procedure for the areas noted in our review.

Department Response: AGREE

The department agrees with this recommendation and, in coordination with the Appraisal Standards section, will focus on updating policy and procedure in the following areas:

1) Appraisal documentation requirements
2) Monitoring work not yet completed
3) Exceptions processing
4) Testing and documenting System changes.

The Quality Assurance section will periodically review activities associated with each policy change.

Secured System Replacement

21. Assessor's management develop a plan, including timeframes and milestones to replace their Secured Property Tax Systems.

Department Response: AGREE

The department agrees with this recommendation. The deficiencies cited in this audit underscore the importance of a new system solution.

A team of managers and subject matter experts is researching available options. A plan to replace the legacy Secured and Unsecured Property Tax Systems will be completed by December 2013.

As documented in the "100 Day Report" dated October 4, 2012, the replacement of existing systems with an integrated solution is a strategic priority in the department's 3-5 year strategic plan for information technology. The initiatives underway to move the department away from systems that no longer provide the required functionality and reliability and toward an enterprise solution are cited in the report.

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REPORT FINDINGS

AUDIT SUMMARY

The Quality Assurance Section completed a review of the regional responses to the exceptions generated by the Auditor-Controller's audit of the Secured Property Tax System. The report originally was sent to the corresponding regions for explanation of enrollment of conflicting or non-supported values generated from the Decline-in-Value (DIV) system, Paperless Transfer System (PTS) or Mills Act Valuation entered through the AS400 System. There were 47 parcels listed on the exceptions report with 28 DIV inquiries, 8 PTS inquiries, and 11 Mills Act inquiries.

QUALITY ASSURANCE AUDIT

The purpose of the Quality Assurance audit was to verify the regional responses to the original Auditor's exceptions report. In order to accomplish this, 22 files were physically inspected in the district offices by Quality Assurance staff, while the remaining were verified through DIV, PTS, or PDB data. In some instances, the appraisals were only available through the District share drives so various district supervisors searched for and printed required documentation upon request.

DECLINE-IN-VALUE RESPONSES:

Twenty three of the twenty-eight regional responses were confirmed to be feasible and proper with the following summaries:

1) Five DIV generated values had been overridden by supervisors due to supervisor judgment in re-weighting of comparable sales or use of additional comparable sales placed in DIV notes section. Override final values were all within the market range indicated by comparable sales.

2) Nine appraisals were overridden by appraisers from the DIV calculated values due to reported appraiser judgment re-weighting or rounding of final values. Override final values were all within the market range indicated by comparable sales.

3) Six appraisals had comparable sales placed in the notes and did not use the DIV system to generate market value.

4) One appraisal was generated and stored in the share drive of the district office without a note in DIV to reference the external appraisal.

5) One appraisal's DIV generated value was rounded by appraiser and allocated among three parcels.

6) One DIV calculated value was overridden by appraiser attempting to round final value but mistakenly increased the value by $100k. Contact was made by Quality Assurance to the approving supervisor who has since corrected the mistake on PDB.

Five of the twenty-eight DIV inquiry responses required further explanation or regional follow-up which has since been provided.

PAPERLESS TRANSFERS RESPONSES:

Five of the eight regional responses were confirmed to be feasible and proper with the following summaries:

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1) Four appraisals valued through PTS had the value overridden by appraiser due to rounding of final enrolled value or re-weighting of the comparable sales without documenting changes. The enrolled values were all within the market range of the comparable sales.

2) One Major Appraisals transfer was enrolled through PTS using an external appraisal which was in the share drive and parcel jacket. Appraiser did leave a note in DIV to see the appraisal in the parcel jacket.

Three of the eight PTS inquiry responses required further explanation or follow-up which has since been provided.

MILLS ACT RESPONSES:

There were eleven Mills Act valuations listed on the Auditor-Controller's report for lack of income information used in the appraisal. All eleven parcels had a hard copy appraisal in the parcel jackets. Upon inspection, the Mills Act valuations appear to follow all the guidelines for determining the trended base value, using comparable sales to determine the current fair market value, and utilized all of the components needed to complete the income approach to arrive at the Mills Act value.

However, the income approach did not reference the source of the income used, and some of the reported expenses did not match those used in the appraisals.

Because the majority of Mills Act properties are owner-occupied single-family residences, and an income approach is required, a rental survey is typically done by investigating similar type properties listed in the MLS and other data sources. Appraiser judgment is utilized in applying this survey information to the subject properties. For the valuations cited, the income searches were not saved and a hard copy was not retained in the file. In determining appropriate expense levels, the reported expenses were analyzed for reasonableness and larger expenses for capital improvements were amortized over the life of the property. The District will retain appropriate supporting data in a designated area/folder in the future.