



A Report  
to the  
Board of  
Supervisors

*Maricopa County  
Internal Audit  
Department*

**Ross L. Tate**  
County Auditor

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# Assessor's Office

*Controls for Capturing and Valuing  
Properties are Adequate; Other  
Controls Need Strengthening*

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April ■ 2010

Executive Summary	1
Introduction	2
Assessor's Office Accomplishments	6
Valuation Changes	7
Legal Classifications	9
Business Personal Property	12
Information Technology	15
Appendix	19
Assessor's Office Response	22

**The mission of Maricopa County** is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

**The mission of the Internal Audit Department** is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

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***"Do the Right Things Right!"***



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April 9, 2010

Don Stapley, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Andrew Kunasek, Supervisor, District III  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

We completed our fiscal year (FY) 2010 review of the Maricopa County Assessor's Office. This audit focused on selected areas within the Assessor's Office and was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

Overall, we found adequate controls for capturing and valuing taxable property in Maricopa County. However, improvements could be made in the following areas:

- Valuation Changes
- Legal Classifications
- Business Personal Property
- Information Technology

Within this report, you will find an executive summary, specific information on the areas reviewed, and the Assessor's Office response to our recommendations. We reviewed this information with the Assessor's Office and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

# Executive Summary

## **Valuation Changes (Page 7)**

The Assessor's Office has adequate controls over assessing and valuing properties. However, during our review, we noted there were no formal approval and documentation processes for making manual changes to parcel values prior to publication of the annual Notice of Valuation being sent to real property owners. Although we did not find evidence of abuse, the potential for inappropriate changes exists. The Assessor's Office should strengthen procedures for manually overriding parcel values prior to valuations being published.

## **Legal Classifications (Page 9)**

Based on our tests, the Assessor's Office correctly classified or changed the classification of exempt, historic, and residential rental properties. However, the Assessor's Office incorrectly classified some parcels as agricultural, was unaware of improvements on several residential parcels, and did not always follow documentation procedures for exemptions and agricultural properties. These issues resulted in an under-assessment of property values, which could create an inequitable tax burden among property owners. The Assessor's Office should work with permitting agencies to improve the transfer of building permit information, ensure all agricultural properties are visited at least every four years, and institute more defined procedures for performing and documenting site visits for exempt properties.

## **Business Personal Property (Page 12)**

The Assessor's Office does not have a comprehensive system in place to account for all business personal property within Maricopa County. We found a number of businesses that were not identified in the unsecured personal property database system and found one business that was classified as "closed" that was still in operation. Unidentified and misclassified businesses could result in business personal property not being correctly assessed or taxed. The Assessor's Office should review processes to determine if other procedures and sources of information could be used to locate unreported business personal property.

## **Information Technology (Page 15)**

Overall, policies and controls to protect the confidentiality, integrity, and availability of the Assessor Application data are in place. However, improvement is needed in the following areas: system access controls, application change controls, IT strategic planning, and IT policies and procedures. IT control weaknesses may jeopardize system availability and data confidentiality (or integrity). In addition, lack of a formal strategic plan can lead to inefficiencies, increased costs, and inferior project outcomes. The Assessor's Office should strengthen the identified IT controls, develop a documented IT strategic plan, and update IT policies and procedures.

# Introduction

## Background

The Maricopa County Assessor’s Office (Assessor’s Office) is the agency established to assist the Assessor in executing his statutory duties. The Assessor is an elected official that operates under Arizona Revised Statutes (ARS) Title 11, Chapter 3, and Title 42 (Taxation), Chapters 11 through 19. Other statutory titles also affect the Assessor’s Office.

The Assessor’s Office is responsible for truly and fairly valuing all real and personal taxable property within the County. The staff annually determines full cash value, or “market value,” and limited value for taxable property. Full cash value is associated with secondary tax rates. Secondary tax revenues fund bond issues, budget overrides, and special districts. Limited value is associated with primary tax rates. Primary tax revenues fund state and local government maintenance and operation.

In order to ensure they have assessed all properties, the Assessor’s Office employees use aerial photos, state land maps, GIS mapping, and appraiser canvasses. As of February 2010, real property parcels and personal property accounts had a combined net assessed value of nearly \$50 billion.



Source: Assessor’s Office Abstracts, 2006-2010

## Legal Classifications

Each parcel of land is assigned a legal classification number for taxation purpose. ARS outlines nine legal classifications.

Class	Legal Classification Description	Tax Year 2010*
1 	<b>Commercial</b> – property used for utilities, companies, fuel production and delivery, shopping centers, certain golf courses, manufacturers, mines, and standing timber	58,661 parcels \$0.4 billion exempt \$15.8 billion NAV
2 	<b>Vacant, Agriculture, &amp; Exempt</b> – property used for agriculture, certain golf courses, and property owned and controlled by non-profit organizations (governments, churches, etc.)	192,053 parcels \$8.9 billion exempt \$3.8 billion NAV
3 	<b>Residential</b> – property that is owner-occupied, generally limited to parcels of 10 acres or less	1,077,866 parcels \$0.04 billion exempt \$21.9 billion NAV
4 	<b>Residential Rental</b> – generally residential property used as a rental; also includes non-profit residential housing, HOA common areas, child care facilities, and other housing	221,233 parcels \$0.08 billion exempt \$4.1 billion NAV
5-9 	<b>Other</b> – includes property used by railroads, historic properties, foreign trade zones, and other classifications	3,164 parcels \$0.006 billion exempt \$0.1 billion NAV

\* Parcel counts and valuations are from Assessor’s Office Abstract (February 2010);  
NAV = net assessed value (assessed value minus any exemptions);  
classification descriptions from ARS §42-12001 through §42-12011

## Other Property Classifications

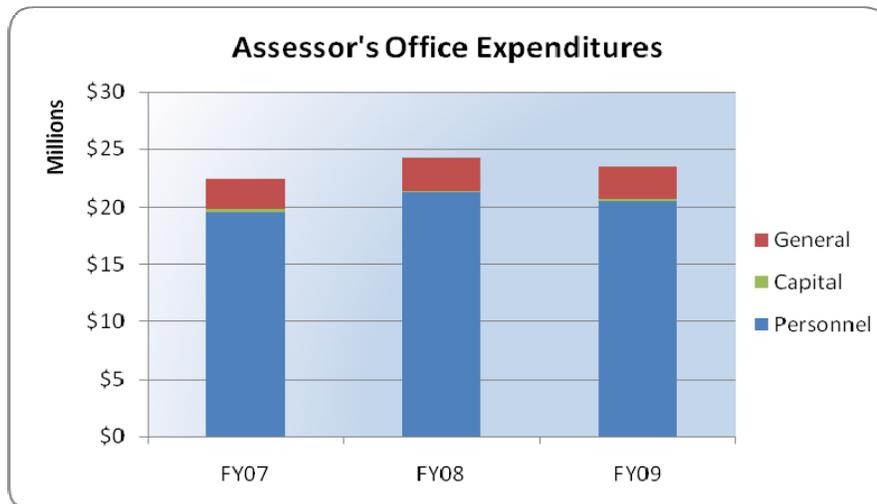
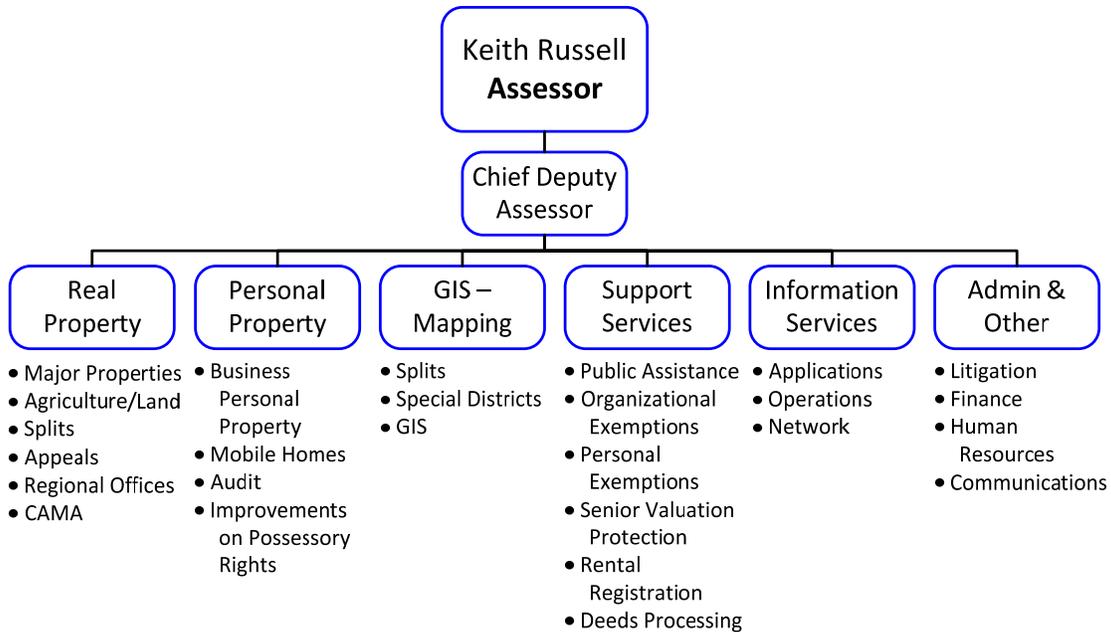
Depending on the property owner, ARS lists a number of additional property classifications that allow for a property tax exemption.

- Property owned by the Arizona State Retirement System, the Corrections Officer Retirement Plan, the Public Safety Personnel Retirement System, and the Elected Officials’ Retirement Plan
- Libraries, colleges, school buildings, and other buildings used for education and by not-for-profits

- Cemetery, historic private burial site, and historic private cemetery
- Personal property exemption for a warehouse in or from which commodities are in transit
- Tribal Indian housing authority

Organizational Structure and Operating Budget

The Assessor’s Office had 322 authorized positions as of July 1, 2009. These positions are divided into six main divisions, as shown in the following organizational chart.



Source: Analysis of Assessor’s Office Financial Transactions

The Assessor’s Office budget is provided by the County’s General Fund. The Assessor’s Office expended \$22.3-\$24.3 million per year over the last three years, with the majority (87.6%) being

spent on personnel. Expenditures rose during FY07 and FY08, but dropped in FY09 due to budget reduction efforts.

## **Information Technology**

The Assessor Application maintains property descriptions and values, and is used by all business functions within the Assessor's Office. Key components include:

- Data management – the application stores required data elements such as property ownership, tax map references, physical property characteristics, and sales data
- Valuation – the application maintains data from mass appraisal models, sales comparisons, and cost and income approaches to property values

Data within the application is generally public unless there is a court-ordered redaction. The Assessor's Office secures certain confidential data, including income data (Social Security and IRS tax statements) for Senior Value Protection, income and expense data (Department of Revenue) for real property appeals, and equipment listings for business personal property.

## **Scope and Methodology**

### Audit Objectives

The objectives of this audit were to determine that:

- Changes to property characteristics and valuations are adequately justified and supported
- Real property is assigned the correct legal classification, and is properly supported
- The Assessor's Office accounts for businesses with business personal property
- IT general controls are sufficient over the Assessor Application to protect the integrity of the data
- Assessor Application controls ensure the confidentiality, integrity, and availability of application data

### Audit Timeframe

We included data from fiscal years 2008 and 2009, and from tax years 2008 and 2009 to conduct the audit.

### Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Assessor's Office Reported Accomplishments

**Maricopa County Assessor has provided the Internal Audit Department with the following information for inclusion in this report.**

## **Organization Design\Development**

- Demonstrated prudent fiscal management by maintaining or improving services while reducing adopted budget \$2,106,759 or 8.5 percent, and eliminating thirty-nine vacant positions
- Increased retention of intellectual capital (reduced turnover to under 10 percent)
- Continued to develop management strength with focus on goals and priorities by conducting two supervisory staff forums and two strategic management sessions
- Initiated next phase of effective litigation case management by recruiting and hiring a new Director of Litigation and re-assigning staff resources to build that unit
- Received 2008 Project of the Year for GDACS from Arizona Land Surveyors Association
- Received 2009 Chapter of the Year from International Association of Assessing Officers
- Received "Best Solution of 2009" award from OSAM Inc. for Appeals Management Automation Project with the Maricopa County Office of Enterprise Technology

## **Business Process Improvements**

- Completed Non-Filer Personal Property audit reviews gaining \$32.1 million in FCV or 32 percent from 87 accounts
- Audited Senior Valuation Protection recipients for 2009
- Canvassed real property in Whispering Ranch area and more than ¼ of all agricultural properties
- Corrected approximately 96,000 parcels due to Special District boundary project, producing 1,500 tax refunds for 2008, nearly 900 for 2007, and over 900 for 2006
- Redesigned 2009 Notice of Value for business personal property and 2010 real property Amended Notice of Value mailings saving over 40 percent in production costs
- Implemented paperless Appeals project (AAMA) for 2010 vacant land parcels

## **Enhanced use of Technology**

- Selected APEX as sketch software to replace Draw-Client application
- Implemented document management system (On-Base) for AAMA project
- Assisted OET in COMPS hardware upgrade
- Developed, trained and implemented new variance review screens for 2010 and CAMA Computators and CUB-SCOUT applications to graphically review valuation data
- Completed Microsoft Office Suite 2007 upgrade
- Developed, trained and implemented new canvass screens for Business Personal Property and adapted them for Mobile Home uses

## **Outreach**

- Worked with State Attorney General and other County Assessors to stop Property Tax Review Board fraud scheme on Maricopa property owners
- Assisted County Assessors Association in addressing property tax reforms during 2009 and 2010 State Budget sessions and proposing property tax statutory changes for 2011 Legislative Session
- Hosted annual meeting with tax agents
- Hosted meeting with agricultural interests on High Density ranching
- Improved co-ordination with Department of Revenue and other County Assessors
- Assessor and staff met with nearly 100 constituent groups

# Issue 1 Valuation Changes

## Summary

The Assessor's Office has adequate controls over assessing and valuing properties. However, during our review, we noted there were no formal approval and documentation processes for making manual changes to parcel values prior to publication of the annual Notice of Valuation being sent to real property owners. Although we did not find evidence of abuse, the potential for inappropriate changes exists. The Assessor's Office should strengthen procedures for manually overriding parcel values prior to valuations being published.

## Criteria

The Assessor's Office is responsible for truly and fairly valuing all real and personal taxable property within the County in accordance with Arizona Revised Statutes (ARS). The statutes provide requirements for property registration, exemption, and classification. The applicable ARS in this section are summarized in **Appendix A**.

The International Organization for Standardization (ISO) and Control Objectives for Information and related Technology (COBIT) promote standards and controls for information technology, such as segregation of duties and user access restriction. ISO and COBIT standards applicable in this section are summarized in **Appendix B**.

## Background

The Assessor's Office is responsible for assessing most properties within Maricopa County, including those classified as residential, commercial, agricultural, and vacant land. Residential properties are usually assessed using the "market" method, which determines the assessed value of a parcel through comparisons of similar parcels sold. Most commercial and industrial parcels are assessed using the "cost" method, which calculates the full replacement cost of the building using Arizona Department of Revenue (ADOR) guidelines. All land is valued using the market method. Some commercial properties, such as apartment buildings, are valued using the "income" method, which estimates how much the property is worth based on the amount of income generated.

The Assessor's Office must submit to annual assessment ratio analyses by ADOR. ADOR compares the assessed value of *all* parcels within the County with actual sales data for a given time period. The assessed value to actual sales price ratio must be within a certain range.

There are three options for property owners to appeal assessment valuations.

- Assessor Level Appeal – This involves a sit-down meeting with an Assessor employee. A property owner may present information proving that the valuation is inaccurate.
- State Board of Equalization Appeal – If a property owner is not satisfied with the Assessor Level Appeal, the valuation may be appealed to the State Board of Equalization (SBOE). This involves a meeting with a hearing officer where both the Assessor and the property owner can present their cases.

- Tax Court – If a property owner is unhappy with the results at the Assessor Level or SBOE appeal, or wishes to skip those administrative steps, the contested value may be filed in tax court.

## **Condition**

Generally, we found strong controls in place over valuation of commercial and residential real property. These controls include a strong appeal process and external controls at ADOR. However, weak documentation and controls over manual valuation changes to individual properties increase the risk of inappropriate actions.

### Manual Valuation Changes Appeared Appropriate, but Procedures Could Be Strengthened

We reviewed 77 of 6,316 manual preliminary valuation changes made during November 24, 2008 and January 12, 2009 for tax year 2010. We reviewed parcel history notes, interviewed personnel, and reviewed paper documentation to verify the validity of the changes. We found that all 77 manual changes appeared to be appropriate. However, during the course of our review, we noted certain procedures over manual valuation changes could be improved.

- Documentation practices among appraisers are inconsistent
- Number of appraisers with the ability to make manual valuation changes is not limited and have several overlapping functions
- Manual changes of less than \$1,000,000 (nearly 95% of the 6,316 manual changes) made by employees did not require a secondary review and approval

### Parcels Dropped Appeared Appropriate, and No Duplicate Parcels Were Found

We compared the secured rolls for tax years 2008 and 2009 to determine if the number of parcels “dropped” from 2008 to 2009 were appropriate. Of approximately 1.5 million parcels on the 2008 tax roll, only 9,870 parcels did not appear on the 2009 roll. We selected a sample of 50 of these parcels and determined that all 50 were dropped for appropriate splits, combines, or tax roll corrections. We also analyzed the 2009 secured roll and found no duplicate parcel numbers.

## **Effect**

Although we found no evidence of abuse, the potential for inappropriate valuation changes increases when users, especially those with incompatible job responsibilities, are granted unrestricted access to make valuation changes with no oversight.

## **Cause**

The Assessor’s Office has not established procedures for manual changes of less than \$1,000,000 to parcel values.

## **Recommendation**

Maricopa County Assessor’s Office should establish authorization, approval, and documentation procedures for improving controls over manual changes to parcel values.

# Issue 2 Legal Classifications

## Summary

Based on our tests, the Assessor's Office correctly classified or changed the classification of exempt, historic, and residential rental properties. However, the Assessor's Office incorrectly classified some parcels as agricultural, was unaware of improvements on several residential parcels, and did not always follow documentation procedures for exemptions and agricultural properties. These issues resulted in an under-assessment of property values, which could create an inequitable tax burden among property owners. The Assessor's Office should work with permitting agencies to improve the transfer of building permit information, ensure all agricultural properties are visited at least every four years, and institute more defined procedures for performing and documenting site visits for exempt properties.

## Criteria

The Assessor's Office is heavily regulated by Arizona Revised Statutes (ARS). For a listing of statutes used in this section, please see **Appendix A**.

The Arizona State Library, Archives, and Public Records approved retention schedule requires the Assessor's Office to keep exemption records for seven years after the calendar year filed.

Assessor's Office procedures for Organizational Exemptions require that all new exemption applications must be field checked. In addition, the supervisor must approve all new exemptions.

## Condition

### Exempt Parcels are Properly Classified

We reviewed 48 non-government, non-common area parcels that were classified as "exempt" within the Assessor Application for Tax Year 2009. These parcels were selected randomly from a population of 10,180 exempt parcels. Except for one parcel that did not have evidence of a required site visit, all requirements for exemption were documented. Based upon our review, we determined that all 48 parcels in our sample were properly classified as exempt.

### Historic Properties Classification Changes are Properly Documented

We reviewed all 12 parcels that were changed to historic residential legal classification during FY09. We found that required approvals and locations within defined historic districts supported each parcel's historic property classification change.

### Agricultural Status is Often Not Justified

We reviewed 25 of 5,406 agricultural parcels for Tax Year 2009. Agricultural status has a much lower assessed value, resulting in significantly reduced taxes. We found 16% (4 of 25) of the parcels appear to have been incorrectly granted agricultural status.

- Two parcels classified as high-density grazing appeared to have no agricultural use (the agricultural classification has been removed from both parcels for Tax Year 2011)
- Two parcels classified as 100% agricultural only had portions of the parcels used for agricultural purposes (the agricultural classification has been removed from both parcels for Tax Year 2011)

Due to varying sizes, locations, and other characteristics of each parcel, we could not calculate the amount of additional taxes that could have been collected had the parcels been correctly classified. However, in one instance, we estimate that 2009 County General Fund taxes were inappropriately reduced from \$7,184 to \$20.

In addition, we reviewed parcel files to ARS and Assessor's Office procedures. We found that procedures were not always followed for 88% (22 of 25) of the parcels. Of those 22 parcels, none had documentation of a site-visit within the past four years, as required by statute. In addition, we noted the following documentation exceptions.

- 1 parcel did not have a copy of the Agricultural Land Use Application
- 13 parcels did not have proof of agricultural use for 7 of the last 10 years

#### Vacant Land

We reviewed 25 parcels that were classified as "vacant" within the Assessor Application for Tax Year 2009. These parcels were selected from a population of 156,333 vacant parcels. Based on aerial photos taken during October 2008 and loaded into the Assessor's GIS, we confirmed that 24 of the 25 parcels were properly classified as vacant land. One parcel appeared to be used partially for storage.

In the course of reviewing aerial images while researching comparable parcel values, we noted five parcels classified as vacant that included single-family houses. These houses had not yet been added to the tax roll.

The Assessor's Office reported that these parcel improvements were missed because the municipal permitting authority did not send building permit information to the Assessor's Office. When compared with surrounding parcels, we estimate the properties were under assessed by \$337,800. In addition, cities and special districts may have additional taxes due.

In response to this issue, and in order to determine if other houses should be added to the tax rolls, the Assessor's Office reported they selected a statistical sample of parcels from approximately 106,000 vacant residential parcels for review. Using aerial imaging and specifying a 99% confidence level, the Assessor's Office reports they found 7 "suspect" parcels from 664 parcels through aerial images. These parcels were immediately scheduled for field review. In addition, the Assessor's Office is investigating software to assist in locating property improvements on vacant land.

## Residential Rental Registration

The Assessor's Office must maintain a separate listing of all residential rental parcels that have registered with the Assessor. We selected 50 parcels at random from rental registrations. Based on a review of parcel histories and conversations with staff, we found that all 50 parcels were correctly classified as residential rentals.

Municipalities are responsible for identifying residential rental properties and should transmit this information to the Assessor's Office for inclusion in its database. In addition, municipalities have the authority for enforcing registration requirements. We compared a listing of 141,600 registered residential rentals (registered through November 30, 2009) with the Tax Year 2009 secured roll. On the roll were 52,003 residential rental parcels that were not present on the registered rental listing.

ARS allow counties to collect a \$10 fee for each rental property registered, which is credited to the County's General Fund. Since 2008, the Assessor's Office has elected to charge the fee. However, the Assessor's Office does not have enforcement power and does not actively search for unregistered rental properties.

### **Effect**

The lack of adequate documentation, procedural compliance, and timely site reviews increases the risk that properties could be misclassified and create an inequitable tax burden among property owners. In addition, unregistered rental properties result in lost revenues that could benefit the County General Fund.

### **Cause**

The Assessor's Office does not have formalized policies and procedures for exempting parcels from property taxes. In addition, the staff has not been following requirements and has failed to perform on-site inspections of all agricultural parcels at application and every four years as required by statute. The Assessor's Office also did not obtain all permit information in a timely manner. ARS does not require the Assessor's Office to identify residential rental properties.

### **Recommendations**

Maricopa County Assessor's Office should:

- A. Formalize policies to ensure site visits are completed and properly documented prior to initial exemption approval.
- B. Work closely with permitting agencies to ensure all building permit data is received in a timely manner.
- C. Ensure that all agriculture parcels are visited prior to initial approval of status and at least every four years thereafter.
- D. Institute a file review process for initial approval of parcels with agricultural status.
- E. Consider working with municipalities to improve the process for registering rental properties and collecting associated fees.

# Issue 3 Business Personal Property

## Summary

The Assessor's Office does not have a comprehensive system in place to account for all business personal property within Maricopa County. We found a number of businesses that were not identified in the unsecured personal property database system and found one business that was classified as "closed" that was still in operation. Unidentified and misclassified businesses could result in business personal property not being correctly assessed or taxed. The Assessor's Office should review processes to determine if other procedures and sources of information could be used to locate unreported business personal property.

## Criteria

The Assessor's Office is heavily regulated by Arizona Revised Statutes (ARS). For a listing of statutes used in this section, please see **Appendix A**.

The Arizona Department of Revenue's Personal Property Manual, in order to comply with ARS states:

- Personal property is defined as all types of tangible and intangible property that is not included in the term real estate.
- The taxpayer has the primary responsibility to report personal property to the Assessor's Office. The Assessor's Office may also use other methods to discover personal property to be assessed. The most widely used methods of discovery include the review of information contained in newspaper advertisements, announcements of new business openings, sales tax licensing registration lists, telephone directories, membership listings in local Chambers of Commerce, canvassing, building permits, and certificates of occupancy.
- The Assessor's Office is responsible for identifying persons owning, possessing, or controlling personal property.

A personal property statement must be filed for each business location if a form, notice, or demand has been sent by the Assessor's Office. Currently, the first \$65,000 in full cash value property for most taxpayers is exempt from property tax.

## Condition

The Assessor's Office does not currently obtain business listings from local cities, towns, or other agencies. In the past, these lists included all businesses, even those that were small in nature and well below the personal property exemption amount. However, according to the Assessor's documented process, all businesses should be entered into the Uniform Personal Property System (UPPS) regardless of the estimated personal property value, which is also used to generate a mailing list for annual valuation forms. The main source of identifying new businesses is through the newspaper, Internet, and neighborhood canvassing. Businesses can also self-report if they have not previously filed. If a business submits an annual valuation for

personal property valued at \$50,000 or less, these businesses are marked as a “low filer” and removed from the mailing list.

In order to determine if the Assessor’s Office could find previously unidentified businesses, we obtained listings of sales tax licenses from the City of Tempe and the City of Phoenix. We then compared these listings of businesses with those contained within the UPPS. We found that a substantial number of businesses on the tax listings were not entered in the UPPS. It should be noted that we did not verify the amount of business personal property these businesses had, which could affect whether or not the Assessor’s Office should include them in the UPPS.

We then selected 45 businesses from UPPS to determine if a 2009 annual valuation request was submitted. We found that 89% (40 of 45) of the businesses properly filed (or were not required to file) annual reports. Of the remaining five:

- Two businesses did not submit a 2009 annual valuation and are not in the Assessor’s UPPS. Using UPPS, we estimated average personal property values for these businesses based on similar type businesses.
  - \$260,620 for a construction tool rental business
  - \$190,776 for a printing business
- One business did not submit a 2009 annual valuation and is not in the Assessor’s UPPS. We were unable to estimate the personal property value for this business.
- One business was noted as closed in 2005 when in fact they are still in operation. We estimated the personal property value for this medical transport service to be \$80,017 based on an average of similar type businesses.
- One business with multiple locations did file a 2009 annual valuation report; however, this location was not included in the report. We estimated the personal property value based on an average of this business’s other store locations to be \$178,621.

We compared business accounts from the UPPS download to a listing of commercial parcels within the Assessor Application. The theory was that each commercial parcel should have at least one business account associated to the physical address. However, during the course of our review, we noticed that UPPS accounts all have an associated street address, while commercial parcels do not always have an associated street address. Because of this system limitation, and the fact that not all business accounts will have a corresponding commercial parcel due to the businesses’ location (such as businesses on Indian reservations and other government owned parcels), we were unable to match a large portion of the UPPS accounts to commercial parcels.

## **Effect**

We identified numerous businesses that potentially did not file a required annual valuation. When an operating business with personal property above the exemption amount does not file an annual valuation, it creates an under-assessment of property values, which could create an inequitable tax burden among property owners.

## **Cause**

The Assessor's Office does not follow procedures to ensure that all businesses are entered into UPPS. Currently, no business listings are obtained from other cities or towns for comparison because they believe they already include too many small businesses that will not result in increased County tax revenue. The Assessor's Office does not have a procedure in place to ensure that if a business expands and the property value goes over the exemption amount then the business owners will know they are required to file an annual valuation form.

## **Recommendations**

Maricopa County Assessor's Office should:

- A.** Work with other agencies to obtain listings of business licenses and compare listings to UPPS to ensure that all businesses have been entered into the database regardless of the estimated property value.
- B.** Consider periodically contacting or sending all businesses annual valuation requests to ensure that all businesses over the exempt amount are reported.

# Issue 4 Information Technology

## Summary

Overall, policies and controls to protect the confidentiality, integrity, and availability of the Assessor Application data are in place. However, improvement is needed in the following areas: system access controls, application change controls, IT strategic planning, and IT policies and procedures. IT control weaknesses may jeopardize system availability and data confidentiality (or integrity). In addition, lack of a formal strategic plan can lead to inefficiencies, increased costs, and inferior project outcomes. The Assessor's Office should strengthen the identified IT controls, develop a documented IT strategic plan, and update IT policies and procedures.

## Criteria

COBIT, an international, generally accepted IT control framework, gives guidance about control requirements, technical issues, and business risks. Internal Audit uses COBIT as an authority for good IT control practices. The COBIT framework includes the following recommendations:

- Establish and maintain IT security policies, procedures, standards, and roles and responsibilities to minimize the business impact of security vulnerabilities and incidents
- Manage all system changes in a controlled, formal manner by logging, assessing, and authorizing changes prior to implementation
- Define administrative policies and procedures for all functions, including control, quality assurance, risk management, information security, data and systems ownership, and segregation of duties

## Condition

The Assessor Application is the primary application used by the Assessor's Office to store property descriptions and values. The Assessor's Office staff developed the application in-house.

We reviewed two types of controls relating to the Assessor Application: general controls and application controls. General controls are overarching policies and procedures that apply to the network and countywide information systems. Application controls are specific to a single information system, such as the Assessor Application. Application controls are activities designed to support business processes, and ensure the confidentiality, integrity, and availability of application data. Our review considered controls over the information technology environment and security of the Assessor Application.

Overall, we found that both general controls and application controls for the Assessor Application protect data confidentiality, integrity, and availability, with the following exceptions:

### System User Access

- A. Administrator user-level account passwords are changed quarterly. However, several employees share high-level user accounts to perform system administration on the Assessor Application, Oracle database, or UNIX system.
- B. Two of thirty-two users with remote access (Virtual Private Network, or VPN connection) to the Assessor's Office system are terminated employees. The users' smart cards (which are used to confirm the identity and permissions to a computer over a remote access connection) were collected upon employee termination; however, the terminated employees were not removed from system access. The Assessor's Office Information Services Division (ISD) was not performing regular reviews of VPN access records.
- C. The UNIX server password expiration is manually set for 90 days. However, ISD configured one of eight UNIX operating system user accounts with a password, which never expires.

### Application Change Management

- D. When a change to the Assessor Application program is needed, procedures require the ISD manager to manually sign off on a hardcopy change-request document to authorize code changes. System limitations prevent the Assessor Application from generating a list of completed program changes. Reconciling program changes (completed to approved) provides assurance that all changes are properly authorized. In addition, user-testing approvals for program changes are not always documented.

### IT Strategic Planning

- E. Although the Assessor's Office business managers establish agency priorities, they do not develop them into a documented IT work plan. The Assessor's Office does not have a short- or long-term, formal strategic planning process which would normally include:
  - An IT steering committee
  - Formal policies that establish strategic priorities
  - Periodic IT risk assessments
- F. The Assessor's Office has incomplete or outdated IT policies and procedures. Some key policies have not been reviewed for revision since 1998.

## **Effect**

### System User Access

Account sharing (Condition A) thwarts accountability by masking which user modified the system. This lack of separate user accounts allows unauthorized or incorrect changes to be implemented and go undetected within the Assessor Application, Oracle database, or UNIX operating system. Account sharing can adversely affect the Assessor Application functionality, including system availability and data integrity.

Neglecting to remove terminated employees' access (Condition B) and non-expiring passwords (Condition C) make it easier for unauthorized persons to perform application or system functions, possibly resulting in a compromise of data confidentiality and integrity.

#### Application Change Management

When the Assessor Application does not independently record and publish program changes (Condition D), it is difficult to ensure that all implemented changes have been appropriately authorized and tested. Unauthorized or incorrect program changes may jeopardize system availability or data integrity.

#### IT Strategic Planning

The lack of formal planning (Condition E), including not formally establishing IT strategic priorities and an IT strategic plan, may result in the following:

- Inefficient practices
- Higher maintenance and development costs
- Poor project outcomes that fall short of user expectations

Lacking complete, up-to-date IT policies (Condition F), users may be unaware of current requirements and guidelines for the IT infrastructure. Outdated IT policies could lead to errors and/or issues with data confidentiality or integrity.

### **Cause**

#### System User Access

ISD uses shared usernames and passwords (Condition A) because administrative passwords are managed in a small organization to provide a simple method of program change, and Oracle database and UNIX system administration. The Assessor's Office works with the Telecommunications Department to initiate and remove VPN access, but did not verify removals because they state they were waiting to receive a notification from Telecommunications (Condition B). ISD manually sets the password expiration configuration for each individual user account, but overlooked one of the UNIX operating system users (Condition C).

#### Application Change Management

While the Assessor's Office has a detailed change control process, they have postponed implementing any new automated features in the current system because automated features were to be included as part of a new application or upgrade of the existing application.

#### IT Strategic Planning

The Assessor's Office IT strategic planning decisions were delayed due to significant changes in County funding, and in management of IT projects, impacting key Assessor's Office IT projects.

## **Recommendations**

Maricopa County Assessor's Office should:

- A.** Enforce unique user accounts for each individual having access to the Assessor Application or the Oracle database.
- B.** Consider implementing a tool, such as the “sudo” utility, that provides individual accountability when performing administrator level UNIX tasks. The “sudo” utility logs all activities by user, providing an audit trail.
- C.** Implement procedures to regularly review:
  - 1) Remote access (VPN) reports to determine that all users with VPN access are appropriate; take corrective action as necessary.
  - 2) User accounts to ensure password expiration is properly enforced.
- D.** Consider implementing an automated change-control procedure to track all application changes and match each to the appropriate authorization.
- E.** Document an IT strategic plan, including formal policies and procedures for evaluating and monitoring risk for the Assessor's Office IT environments.
- F.** Establish and/or update all IT policies and procedures.

# Appendix A Arizona Revised Statutes

- §33-1902** Requires owners of residential rental property within the County to register specific information with the Assessor's Office; also allows the Assessor to collect a \$10 fee for each new or modified registration
- §42-11101-55** Establishes qualifying organizations and procedures for exempting parcels from property taxes. Those procedures include:
- Persons filing an initial exemption must appear before the Assessor's Office
  - Organizations must file yearly renewals, except for schools, churches with a 501(C)3 status, or cemeteries
- §42-12002** Defines vacant land as unimproved land that is not used for profit, another purpose, or otherwise classified
- §42-12004** Requires the Assessor's Office to classify all residential properties rented or intended to be rented to persons other than qualifying family members as class 4 properties
- §42-12052** Requires the Assessor's Office to inquire if class 3 residential properties are rented when there is some suspicion of rental character. If the owner fails to respond, the Assessor's Office may reclassify the property as class 4 and the Treasurer's Office may assess a penalty
- §42-12103** Requires the approval of the State Historic Preservation Office before the Assessor's Office can grant historic classification for tax purposes
- §42-12151-59** Establishes requirements for agricultural classification. These include:
- Economic unit (all associated parcels of farm/fields/etc.) acreage requirements of: (1) 20 acres for field crops, (2) 10 acres for permanent crops, such as citrus or apple trees, (3) 12,800 acres for ranch/grazing land, and/or (4) no minimum for high density activities, such as dairies, hydroponic vegetables, or wholesale nurseries
  - Agricultural use for 7 of last 10 years
  - On-site inspection of all agricultural properties every four years
  - Application if the use changes or ownership changes
- §42-13102** Requires that if the parcel is leased, a lease must be on file with the Assessor's Office
- §42-15053** Requires that the Assessor on or before February 1 of each year, mail a form, notice, or demand to each person who owns or has charge or control of taxable personal property in the state. Each person shall prepare and deliver to the Assessor a correct report of property on or before April 1 of each year, except for property that is not required to be reported (livestock from individuals, corporations, partnerships, or any other business if the livestock is exempt from taxation or the personal property that is class two property used for agricultural purposes or class one property used in a trade or business that is exempt from taxation)

Source: <http://www.azleg.gov/ArizonaRevisedStatutes.asp>

# Appendix B ISO & COBIT Controls

## ISO 27001

ISO 27001 are standards that have been specifically reserved for information security matters by the International Organization for Standardization (ISO). ISO 27001 Security Framework states the following control:

**A.10.1.3 Segregation of Duties** – Duties and areas of responsibility shall be segregated to reduce opportunities for unauthorized or unintentional modification or misuse of the organization's assets.

## COBIT DS5

The Control Objectives for Information and related Technology (COBIT) is an IT governance framework and supporting toolset that allows managers to bridge the gap between control requirements, technical issues, and business risks. COBIT control objective DS5 - Ensure Systems Security states the following:

The need to maintain the integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business impact of security vulnerabilities and incidents.

The detailed control objective states:

**DS5.4 User Account Management** – Address requesting, establishing, issuing, suspending, modifying, and closing user accounts and related user privileges with a set of user account management procedures. Include an approval procedure outlining the data or system owner granting the access privileges. These procedures should apply for all users, including administrators (privileged users) and internal and external users, for normal and emergency cases. Rights and obligations relative to access to enterprise systems and information should be contractually arranged for all types of users. Perform regular management review of all accounts and related privileges.

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# **Assessor's Office Response**

Keith E. Russell, MAI  
Assessor



301 West Jefferson Street  
Phoenix, Arizona 85003  
Phone: (602) 506-3406  
[www.maricopa.gov/assessor](http://www.maricopa.gov/assessor)

## Maricopa County

April 7, 2010

Mr. Ross L. Tate  
County Auditor  
301 W. Jefferson Avenue, Suite 660  
Phoenix, Arizona 85003

Re: A Report to the Board of Supervisors, 2010 Assessor's Office

Dear Mr. Tate:

I would like to Thank you and your staff for working with us over the past seven months to complete the internal review of the Assessor's Office. We appreciate how professional and courteous your staff performed throughout this review process.

Overall, we are extremely pleased with this review and look forward to implementing improvements to remedy the four issue areas. With much of the finding focus around procedures, we struggle finding the resources and manpower needed to continuously update and develop them. Over the past several years, my staff has worked to improve processes and procedures; however we know there are always areas for improvement.

We continuously look for more efficient tools and processes to capture and accurately value all properties in Maricopa County. The recommendations noted in the audit report will help us continue to move our organization forward to being a National Leader in Property Tax Assessment arena.

Again, I do appreciate your efforts to help us improve the services we provide to the citizens of Maricopa County. Please contact me if you have any questions concerning our audit review response.

Thank you for the opportunity to serve you,

A handwritten signature in black ink, appearing to read "K. E. Russell".

Keith E. Russell, MAI  
Maricopa County Assessor

Attachments

**AUDIT RESPONSE  
ASSESSOR'S OFFICE  
April 7, 2010**

**Issue #1:**

**The Assessor's Office has adequate controls over assessing and valuing properties. However, during our review we noted there were no formal approval and documentation processes for making manual changes to parcel values.**

**Recommendation: Establish authorization, approval, and documentation procedures for improving controls over manual changes to parcel values.**

**Response: Concur-Completed-- For the 2011 roll, the Assessor's Office developed and implemented additional preliminary value review procedures. The improved procedures include a secured Oracle form to review and track preliminary values that were out of compliance. This form requires a review code for every parcel contained within the report. Future improvements are under consideration.**

**Target Completion Date: Complete. See attachment "2011 Valuation Review Guidelines" dated December 17, 2009.**

Valuation review  
2011.docx

**Benefits/Costs: Increased control over accountability.**

**Issue #2:**

**Based on our tests, the Assessor's Office correctly classified or changed the classification of exempt, historic, and residential properties. However, the Assessor's Office incorrectly classified some parcels as agricultural, was unaware of improvements on several residential parcels, and did not always follow documentation procedures for exemptions and agricultural properties.**

**Recommendation A: Formalize policies for the Organizational Exemptions group to ensure site visits are completed and properly documented prior to initial exemption approval.**

**Response: Concur--in process. The Organizational Exemptions group does have a process or flow chart, we are in the process of converting those documents into written policies and procedures.**

**Target Completion Date: June 30, 2010**

**Benefits/Costs: Increased control over accountability.**

**Recommendation B:** Work closely with permitting agencies to ensure all building permit data is received in a timely manner.

**Response:** Concur—on going process. The Assessor's Office constantly strives to improve permit data exchanges with all 26 issuing agencies within Maricopa County. We monitor compliance on a monthly basis. If we find that a city is falling behind in their submittals, we follow up via phone, email and/or on-site meetings. Our experience is that larger cities normally have a high rate of compliance, whereas some of the smaller jurisdictions have proven more challenging.

In February 2009, our office sent letters to every mayor and city manager reiterating their statutory obligation, as it relates to ARS 9-467A, and the requirement they forward permit data to our office in a timely manner. To facilitate the needs of smaller jurisdictions with limited budgets, last year our office developed and implemented a free web based permit submittal program that is currently being used by 5 or 6 cities.

As a result of new technologies we recently implemented an in-house Aerial Canvassing program that will be helpful in acting as a backup for locating new construction in case a city fails to send us a building permit for whatever reason. This new program will enable us to canvass large areas of vacant parcels very quickly. Also, there is even newer technology available that we are exploring that could enable us to better utilize oblique aerial imagery for canvassing parcels throughout Maricopa County.

**Target Completion Date:** On going

**Benefits/Costs:** Better utilization of special oblique aerial imagery could generate a substantial savings in both time and money. This imagery was discussed with the Board of Supervisor's on March 16, 2010 during the Assessor's 2011-2015 Strategic Plan presentation. Costs are being explored.

**Recommendation C:** Ensure that all agriculture parcels are visited prior to initial approval of status and at least every four years thereafter.

**Response:** Concur- ongoing. A new procedure was implemented in January of 2009 .Each appraiser was assigned their own specific areas within the county. The applications are first stamped in as received, and then the support staff makes a parcel history note on the receiving of the documents. The applications are then placed in the assigned appraisers work basket. The appraisers then plan out their work schedule for a week or two at a time. The appraisers complete their field inspections by driving to the property, taking notes, taking pictures and if needed walk the properties. After the appraiser returns to the field they confirm all their last minute questions or concerns. At which time the appraisers make their final determinations and complete the paperwork and enter the decision in the computer as well as on the agricultural application. All notes are then placed in the agricultural folder.

Since the 2008 agricultural canvass, this unit has completed the canvassing of just under 6,210 parcels over the last two years. The total parcel count for agricultural properties is approximately 11,468 as of December 30, 2009. We are just ahead of the statutory requirement to have filed inspected one half of the parcels classified agricultural at the end of two years.

**Target Completion Date:** This is an ongoing process since new and updated applications are being received on a daily basis. We will be able to evaluate if we missed any applications by a specific deadline in order to close out a valuation year. This will vary by few weeks depending on the final date established each year.

**Benefits/Costs:** Increased control over accountability.

**Recommendation D:** Institute a file review process for initial approval of parcels with agricultural status.

**Response:** Concur – complete\on-going process. A new procedure was implemented in July of 2009. The statutes require a decision needs to be rendered within 120-days from receiving the applications. We have set an internal deadline of 100 days for a decision , so if we have someone out ill, a high volume of appeals or notice of claims etc. the staff has a buffer as well as the supervisor for confirming the applications have been completed on time. We added more staff to assist and the hiring of a new supervisor has allowed the staff to improve in this area.

In 2009, the staff field inspected a total of 1,840 parcels that were listed on new applications filed. Since this process has been implemented the staff has been able to meet the deadline on ninety-four percent of the applications.

**Target Completion Date:** On-going process

**Benefits/Costs:** Increased control over accountability.

**Recommendation E:** Consider working with local jurisdictions to improve the process for registering rental properties and collecting fees.

**Response:** Concur- ongoing process. Although the Assessor understands the meaning behind the audit recommendation, the facts are there is no enforcement authority grant to the Assessor under the law. A.R.S. § 33-1902 requires the owner of rental property to simply register their property with the Assessor. Maricopa County is the only county in Arizona to act on the legislature's discretion in ARS § 33-1902 to collect a fee from property owners in the registry. This action has led to nearly \$265,000 being collected since February 2009.

As the report points out, the enforcement of ARS § 33-1902 comes under towns / municipalities. The Rental Registration group will continue to communicate with local governments to help ensure rental registration compliance. Also, the group will look at cost effective ways to increase public awareness, beyond the requirement that is contained on the annual Notice of Value that is sent to all 1.5 million property owners each year.

**Target Completion Date:** On-going process

Benefits/Costs: Additional public awareness and additional support to local jurisdictions beyond the mandated mailings to ALL property owners each year may require additional resources.

**Issue #3:**

**The Assessor's Office does not have a comprehensive system in place to account for all business personal property within Maricopa County. We found a number of businesses that were not identified in the unsecured personal property database system and found one business that was classified as "closed" that was still in operation.**

**Recommendation A: Work with other agencies to obtain listings of business licenses and compare listings to UPPS to ensure that all businesses have been entered into the database regardless of the estimated property value.**

Response: Concur – ongoing process. Although the Assessor understands the recommendation we will look at many different approaches to garner information. We have three approaches that are in process to-date .

**1 – New Canvass Plan**

Phase One: Consists of pre-canvass research such as checking city websites to identify new economic development plans and checking building permits to identify new commercial construction; and field data collection to identify and monitor; active accounts, non-filers, low value filers, vacancies, exemptions, and new accounts.

Phase Two: Upload canvass results into Assessor's Database

Phase Three: Performance Standards for valuation year

**2 – Utilization of UCC Filings in Secretary of State's Office**

Phase One: Meet with Electronic Data Associates (EDA) to review their services

Phase Two: Meet with Tax Management Associates (TMA) to review their services

Phase Three: Decide which resource to implement and train staff in their usage

**3 – Identify Commercial Parcels with no Personal Property Account through adding a GIS Layer**

Phase One: Add a parcel location identifier to each Personal Property Account.

Phase Two: Build a GIS Layer to identify Commercial Real Property Parcels without an Active Personal Property Account.

Target Completion Date: On going

Benefits/Costs: Increased control over accountability. There will be a cost if we decide to implement a contract with either the EDA or TMA.

**Recommendation B: Consider periodically contacting or sending all businesses annual valuation requests to ensure that all businesses over the exempt amount are reported.**

Response: Partially concur. We regularly enter businesses onto the UPPS regardless of estimated personal property value. After the Rollover, which starts the new assessment year, the supervisor makes a determination as to which low value accounts will not receive forms in the following year. The supervisor considers the number of accounts, printing and mailing costs, and time available to work the additional forms. Although the threshold defining Low Value accounts was \$60,000 this year, it has been

lower in previous years. It could be \$0 if the supervisor entered this in the system. In effect, this would send returns to every account on the system as recommended.

It should be noted that ARS § 42-15053 (C) (2) allows the Assessor *not* to send forms to those accounts that fall under the exempt amount. This law was passed based on the legislative intent that business property owners were complaining about filing when they were under the exempt amount. This was an undue burden that was being placed on the businesses because no taxable valuation was being derived from the process.

Perhaps a better way of communicating compliance requirements would be to continue outreach efforts to local business organizations that could pass along information to their membership (Rotaries, Chambers, NFIB, etc.).

Target Completion Date: N/A

Benefits/Costs: The Office will have to consider the following costs in light of the unknown valuation benefits:

- Printing and mailing more forms
- Staff time to process additional returned mail
- Staff time to work additional forms and possible overtime costs
- Statutory deadlines to complete work (3 months)
- Additional field work and mileage costs for appraisers to review returned forms
- Additional Non-filers
- Increased phone calls for staff
- Additional cost for property owners to process forms or pay CPA's, etc.
- Legislature response with future statutory changes that may impact costs

**Issue #4:**

**Overall, policies and controls to protect the confidentiality, integrity, and availability of the Assessor Application data are in place. However, improvement is needed in the following areas: system access controls, application change controls, IT strategic planning, and IT policies and procedures.**

**Recommendation A:** Enforce unique user accounts for each individual having access to the Assessor Application or the Oracle database.

**Response:** Concur--completed. By creating an additional "sysctrl" user account for Oracle the Assessor's office is better able to track the creation and deletion of user accounts for the Assessor's application and the Oracle database. This enhancement was attained with no costs to the Assessor's office.

**Target Completion Date:** This was completed on 01/15/10

**Benefits/Costs:** Increased control over IT accountability.

**Recommendation B:** Consider implementing a tool, such as the "sudo" utility, that provides individual accountability when performing administrator level UNIX tasks. The "sudo" utility logs all activities by user, providing an audit trail.

Response: Concur--in process. A feasibility study began 03/19/2010. The feasibility study is to determine the impact of additional overhead of running monitoring utilities or software on our current system. The Assessor's current HPUX system is running on hardware that is approaching seven years in age and has limitations on the available memory needed by any additional processes. Once the impact is measured the Assessor's office will determine if it will impact the application. If it cannot be implemented on the current hardware, it will be once a hardware refresh is completed.

Target Completion Date: At this time a target completion date cannot be determined. The feasibility study should be complete by 5/1/2010.

Benefits/Costs: The cost of this software may require implementation concurrently with new hardware that is planned as a one-time expenditure for the CAMA project.

Recommendation C: Implement procedures to regularly review: (1) remote access (VPN) reports to determine that all users with VPN access are appropriate; take corrective action as necessary and (2) user accounts to ensure password expiration is properly enforced.

Response: Concur—Will Implement with modifications. Although the names were on the report, VPN cards had been removed from the employees as they terminated employment. At no time was any system accessible.

We do not currently receive remote access reports from OET as we once did. We are in the process of inquiring with OET to see if we can start getting monthly or quarterly remote access reports for the Assessor's office.

Target Completion Date: 4/18/2010

Benefits/Costs: Increased control over IT accountability.

Recommendation D: Consider implementing an automated change-control procedure to track all application changes and match each to the appropriate authorization.

Response: Concur—implementation not currently possible. While the Assessor's office agrees that an automated change-control procedure would create greater efficiencies and allow for better tracking of system changes, our current system does not allow for this functionality. In addition, current budgetary limitations do not allow for the costs associated with an off the shelf change management system. In our previous RFP for a new CAMA system, as well as any future investigation of a new CAMA system, this functionality is a requirement.

Target Completion Date: N/A

Benefits/Costs: Increased control over IT accountability.

**Recommendation E:** Document an IT strategic plan, including formal policies and procedures for evaluating and monitoring risk for the Assessor's Office IT environments.

**Response:** Concur--in process. The primary Assessor IT strategic plan in the past was centered on the selection and implementation of a new CAMA system. During this process both technical and user steering committees were created to identify all requirements and to evaluate all solutions presented based upon the requirements. In February of 2007, this project was placed on hold due to budgetary limitations. Since that time the Assessor's office has been working with the Office of Enterprise Technology on laying out a new course for the future of our current valuation application. The latest update to this plan was on March 18<sup>th</sup> of 2010 and is available upon request.

**Target Completion Date:** 12/31/2010

**Benefits/Costs:** We continue to work cooperatively with the Office of Enterprise Technology to map out a strategy for our new CAMA system.

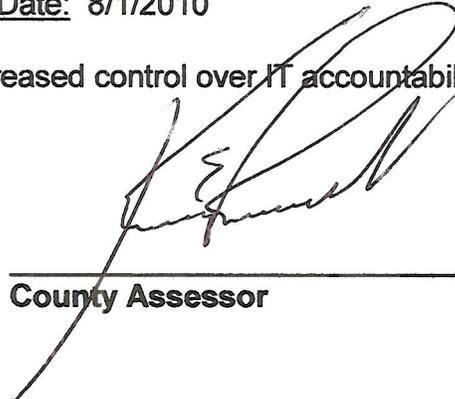
**Recommendation F:** Establish and/or update all IT policies and procedures.

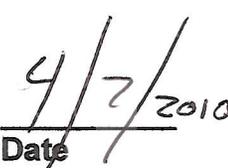
**Response:** Concur--in process. The Assessor's office is starting the process of reviewing all IT policies and procedures. Due to the age of our current system, the majority of our procedures and policies have not changed in some time as the application itself has not undergone major changes. We plan to have completed an initial scan of all existing policies and procedures by June of 2010 and have all revisions completed by August.

**Target Completion Date:** 8/1/2010

**Benefits/Costs:** Increased control over IT accountability.

Approved by :

  
\_\_\_\_\_  
County Assessor

  
\_\_\_\_\_  
Date