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Assessor's Office

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*Internal Audit Report Authorized by the
Maricopa County Board of Supervisors*

Report Highlights

Page

Real property assessment valuations were computed in accordance with statute.	1
Legal classifications and associated assessment ratios were accurate.	2
New construction was accurately reflected in property assessment valuations.	3

Objectives

Our objectives were to ensure that:

- Real property assessment valuations are computed in accordance with statute.
- Real property legal classifications and associated assessment ratios are accurate.
- New construction is accurately reflected in the property assessment valuations and that levy limits are determined in accordance with statute.

Scope

The audit scope encompassed three primary areas: (1) real property assessment valuations, (2) legal classifications, and (3) identification of new construction valuations for property tax levy limits.

The primary audit period was Tax Year (TY) 2016. We reviewed TY 2016 tax rolls and Notice of Change letters for TY 2015 and TY 2016. We also reviewed building permits received from Phoenix, Mesa, Gilbert, Scottsdale, and Maricopa County (January – June 2014). In order to achieve our objectives, we reviewed relevant federal and state regulations and the Assessor's Office internal policies and procedures. We also conducted interviews with staff, and examined relevant records, reports, and processes.

Standards

This audit was approved by the Board of Supervisors and was conducted in conformance with International Standards for the Professional Practice of Internal Auditing. The specific areas reviewed were selected through a formal risk-assessment process.

Auditors

Carla Harris, Audit Manager, CPA, CIA, CFE
Patra E. Carroll, IT Audit Supervisor, CPA, CIA, CISA
Tim Lockinger, Senior Auditor
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This report is intended primarily for the information and use of the County Board of Supervisors, County leadership, and other County stakeholders. However, this report is a public record and its distribution is not limited. We have reviewed this information with Assessor's Office management. If you have any questions about this report, please contact Mike McGee, County Auditor, at 602-506-1585.

Audit Results

Issue #1: Real Property Assessment Valuations

Background: The Limited Property Value (LPV) was created in 1980 to restrict property taxes. The LPV is determined by a statutory formula based on the Arizona Constitution and statutes, and it cannot exceed a property's Full Cash Value (FCV).¹

Proposition 117 was on the November 2012 general election ballot in Arizona as a legislatively-referred constitutional amendment, where it was approved. Proposition 117 caps annual increases in the LPV of property at 5%, except under certain statutorily authorized conditions, beginning in Tax Year (TY) 2015.²

Observation: We examined 1,578,348 real property parcels (100%) in TY 2016 to verify that assessment valuations were computed in accordance with statute. Specifically, we verified that:

- LPV did not exceed FCV
- Growth in LPV did not exceed 5% (TY 2015 to TY 2016)
- LPV amounts were not changed after the TY 2016 Notice of Valuation (NOV) was sent to the property owner, unless a statutorily authorized exception existed

A summary of our findings appears below:

LPV Did Not Exceed FCV

The LPV was less than or equal to FCV for virtually all (1,578,346 of 1,578,348) parcels. The Assessor's Office reported that appropriate adjustments have been made for the two exceptions noted.

Growth in LPV Did Not Exceed 5%

The LPV growth was 5% or less for 1,533,435 of 1,578,348 (97%) parcels. We sampled 50 parcels exceeding 5% LPV growth to verify that a statutorily authorized condition existed (e.g., new construction, parcel split). No exceptions were noted.

No Unauthorized Changes to LPV Amounts

We identified 29,488 parcels (2%) in which the LPV amounts changed after the NOVs were sent to the property owner. We sampled 50 parcels to verify that the changes were for statutorily approved reasons (e.g., valuation appeal decisions, approval of senior valuation protection). No exceptions were noted.

We also reviewed the timeliness of tax notifications for TY 2016 (Notices of Valuation and Notices of Change), and found that all notices were sent on or before the statutory deadline.

¹ Arizona Revised Statute § 42-13301(B)

² Arizona Revised Statute § 42-13301(A)

Conclusion #1A: Adequate controls are in place to ensure that real property assessment valuations are computed in accordance with statute.	
Recommendation	Assessor's Office Action Plan
None	N/A
Conclusion #1B: Property valuation notices were mailed on or before the dates required for TY 2016.	
Recommendation	Assessor's Office Action Plan
None	N/A

Issue #2: Legal Classifications

Observation: All parcels are assigned a legal classification. The “legal class” is a statutory category that is used to classify property based upon its use (e.g., vacant, agricultural, residential, commercial).

The legal class determines the assessment ratio, or percent of the assessed value used to calculate property tax. Assessment ratios currently range from 1% for governmental and non-profit property, to 18% for commercial property.

All parcels are also assigned property use code. Property use codes categorize similar property types based on property characteristics. Changes in property use are primarily identified by the Assessor's Office based on building permits received and internal canvassing processes (i.e., verifying and updating property details through aerial photography, computer technology, and physical inspection).

We identified 3,231 parcels with a legal classification change in TY 2016. We sampled 80 parcels to verify that (a) changes in legal class were consistent with property use codes; (b) assessment ratios were correctly applied; and (c) changes in property use were adequately documented. No significant exceptions were identified.

Conclusion #2A: Legal classifications and associated assessment ratios reviewed were accurate.	
Recommendation	Assessor's Office Action Plan
None	N/A

Issue #3: New Construction

Observation: The County's property tax levy limit may increase by 2% annually, plus the value of new construction.³ As such, new construction can have a material impact on the property tax levy limit, and errors can have long-term impact due to the 2% limitation in future years. For instance, in TY 2016 the value of new construction totaled approximately \$808 million and the property tax levy limit increased by 4.3%.

The Arizona Department of Revenue defines new construction as any change in the physical characteristics of an improvement on a parcel that may substantially affect the full cash value of the parcel.

The Assessor's Office relies on building permits received from local municipalities, as well as internal canvassing procedures, to identify new construction. In order to assess controls in place to identify new construction, we reviewed 4,624 of 19,324 building permits submitted by five jurisdictions.

For 3,847 of 4,624 (83%) permits analyzed, a Notice of Change was generated and/or the parcel had an LPV increase greater than 5% from the prior year, indicating that new construction was properly identified and reflected on parcel records.

For the remaining 777 (17%) permits not valued as new construction, we sampled 50 and found no exceptions, as changes to the property did not add value.

We also sampled 50 permits valued as new construction to verify that physical characteristics were accurately updated in the Assessor's Office system. We found no exceptions.

Conclusion #3A: New construction reviewed was accurately documented in the property assessment valuations and supports levy limit calculations	
Recommendation	Assessor's Office Action Plan
None	N/A

³ Arizona Revised Statute § 42-17051