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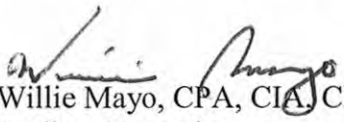
July 26, 2010

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Operational Assessment Review Report on the Assessment and Equalization Division, our report is dated June 7, 2010; DAP No. 2010-57-852. The report was accepted by the Audit Committee July 13, 2010, and formally received by the Wayne County Commission on July 15, 2010.

We are pleased to inform you the officials from Assessment and Equalization Division provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at the following address: http://www.waynecounty.com/comm_depts_auditor_reports.htm


Willie Mayo, CPA, CIA, CICA
Auditor General

REPORT DISTRIBUTION

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County Executive





County of Wayne, Michigan
Office of Legislative Auditor General
Operational Assessment Review

**Assessment and Equalization Division
Department of Management and Budget**

DAP No. 2010-57-852

June 7, 2010

Objectives, Scope and Methodology

Objectives

The Office of Legislative Auditor General has performed an Operational Assessment-Review of the ***Assessment & Equalization Division, Department of Management and Budget, (A&E)***. The purpose of our review was to identify key risks to this function or activity and assess whether management has appropriate internal controls and processes in place to sufficiently manage or mitigate such risk(s). Our specific objectives for the engagement were to identify and assess key risk in the following areas:

- I. Governance;
- II. Risk Management and Control Activities;
- III. Compliance with Laws, Regulations and Ordinances; and
- IV. Financial Activity

Scope

The primary period of review for this engagement from October 1, 2009 – April 30, 2010 and the fieldwork for this engagement was performed at A&E's offices and completed on June 7, 2010.

IIA Consulting Standards

This engagement was performed in accordance with Consulting Standards defined by the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). The IIA defines consulting engagements as advisory and related service activities, the nature and scope of which is to add value.

Methodology

The procedures performed for this engagement were limited and were not sufficient to constitute an audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The procedures performed were primarily limited to inquiry of appropriate personnel and officials of A&E and others, review of certain documents to corroborate assertions and walk-through of key strategic and business processes.

Purpose and Organizational Structure

The mission of A&E is to professionally survey, record, compile and report assessment and tax related data pertaining to each city and township within Wayne County for the purpose of advising the Wayne County Commission in regard to the equalization of assessments and the apportionment of property taxes as required by the General Property Tax Law and other related statutes.

Additionally, their mission is to provide quality assistance to Wayne County communities in regard to the valuation, assessment and audit of property, as well as assistance in assessment and tax roll preparation, tax billing and other related services. The division is divided into several business units and functions which consist of the following:

Administration - Plans, implements and supervises the effective delivery of services for Wayne County and local communities. Oversees the general operations of the division. Develops and administers division policies, work rules and budget.

Appraisal - Responsible for inspecting, measuring and appraising residential, commercial and industrial property for assessment and equalization purposes throughout the County of Wayne. Activities include the compilation and analysis of sales, cost and income data relating to property valuation; completing property field sheets, preparing written appraisal reports, advising local assessment administrators in regard to real property valuation concerns; and defending valuations before local Boards of Review and the Michigan Tax Tribunal.

Assessment Systems/Data Processing - Prepares assessment rolls, tax rolls, special assessment rolls and tax bills for the majority of the Wayne County communities.

Engineering - Provides civil engineering service required in the administration of the property tax, prepares property descriptions adequate for tax purposes, prepares and maintains tax maps, and resolves problems concerning conflicting property descriptions for assessment and property tax purposes. Tax Maps is a function where Wayne County Assessment and Equalization provides civil engineering service required in the administration of the property tax, prepares property descriptions adequate for tax purposes, prepares and maintains tax maps, and resolves problems concerning conflicting property descriptions for assessment and property tax purposes.

Sales Analysis & Assessment Data - Responsible for the review, analysis and processing of property sales data as required for the development of annual Assessment/Sales Equalization studies.

Tax Base Accounting - Surveys and analyzes tax rates proposed for levy by each taxing authority within Wayne County. Responsible for the compilation of data required for the annual county report on apportionment. County Tax Apportionment is determined by the County Board of Commissioners, at its annual session in October in each year, determines the amount of money to be raised for county purposes, and apportions the amount and also the amount of the state tax and indebtedness of the county to the state among the several townships in the county in proportion to the valuation of the taxable real and personal property. The apportionment is then entered at large on county records.

County Equalization – Is a function each unit of Assessment and Equalization contribute to achieving. The function is to plan, implement and supervise the effective delivery of services for Wayne County and local communities. Oversees the general operations of the division. Develops and administers division policies, work rules and budget.

I. Governance

The governance process is considered one of the most important elements of internal controls. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone for an organization, program, or activity, providing discipline and structure influencing the control consciousness of its employees. Control environment factors include: integrity, ethical values and competency of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees.

The absence of a sound governance structure and lack of adherence to basic governance or management principles increases the risk of loss, fraudulent financial reporting, misappropriation of organizations assets and resources, organizational goals and objectives. Good governance is one of the key controls to reduce the risk of management overrides.

Conclusion

Based on inquiries, discussions and observations, we generally concluded that the control environment, organizational structure, philosophy and ethical values or governance of A&E appear to be adequate to achieve the division's mission, goals and objectives. However, we did note areas where we believe elements of the governance process should be strengthened.

Area of Concern	Observation(s)
Lack of Classification Analysis of Current Positions	Assessment and Equalization failed to maintain uniform classification analysis (job description) on file for all of its positions. The division has some job postings created by the Wayne County Department of Personnel/Human Resources (P&HR), while others were (P&HR) classification analysis. However, the department does not have classification analysis, detailed job postings or full descriptions for all positions within the division. Best business practices state that the objective of a job description is to have a clear outline of duties and responsibilities. It must accurately and clearly reflect the expectations, qualifications, and other applicable information in relationship to the employment position to be effective. Wayne County classification analysis plays an important role in minimizing employee-related liability. Along with employment policies and procedures, employment contracts and often critical evidence in employment disputes. Job descriptions may have the following elements: • Improved cooperation by giving all members of the organization insight in existing responsibilities/roles • Enabling career moves within the organization

	• Determination of amount of pay per function • Increase of results by specification of responsibilities and key performance indicators • Development of job owner by specification of competencies
	<u>Impact</u> Failure to maintain uniform detailed and complete updated classification analysis for all positions within the division or department could result in job responsibilities and tasks not being completed in a consistent and efficient manner. In addition, it diminishes management oversight and ability to hold employees accountable.
	Recommendation(s)
	<u>2010 – 01</u> We recommend A&E officials adopt and implement a division policy that requires uniform job descriptions for each filled position be maintained on file and reviewed annually to ensure they are current.
	Management's Response: No Auditee Comments

II. Risk Management and Control Activities

Risk Management

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified, and assessed with the appropriate mechanisms in place to minimize high-risk activity. Risk Management is the identification and analysis of relevant risk, which exists within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing appropriate and sufficient compensating controls, where required, to enhance the probability of achieving the organizations objectives and protecting the interest of all stakeholders.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management's directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operations and performance, security of assets and segregation of duties. It is action taken to minimize risk. The need for control activity is established in the risk management process.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.

Conclusion

The Division of A&E appears to have identified risks and established necessary controls over key processes to mitigate those risks. In addition, A&E is working in conjunction with Wayne County's "Managing for Results" (MFR) program to establish performance measures, budgeting and operational efficiencies, as well as long term strategic planning. However, we did note areas where we believe risk management and control activity processes can be strengthened.

Area of Concern	Observation(s)
Risk of Discontinuing Services to Wayne County Communities	Management advised us that due to budget constraints they are considering discontinuing the practice of providing property tax assessment and assistance to 19 communities in Wayne County. The service the charter currently allows the county to contractually provide to the communities includes the preparation of: 1) assessment rolls, 2) tax rolls, 3) special assessment rolls and 4) tax bills. The division currently receives about \$1.0 million annually for these services. However, according to officials within A&E the relevant cost of providing this service is about \$2 million. In order to breakeven costs to the communities would double. The official further indicated that Oakland County provides the service to 26 communities but they have a budget of \$9.6 million and 88 on staff while Macomb County does not provide the service. We have been informed that the analysis performed by A&E estimates relevant costs to approximate \$2 million and the revenue received is estimated at \$1 million annually. Therefore, it costs the county about \$1 million to provide these services at the current fee.

	Recommendation(s)
	<u>2010 - 02</u> Due to budget constraints, we recommend A&E either bill the communities for the full cost of providing the service or discontinue providing property tax assessment services to the 19 communities.
	Management's Response:
	Management indicated that Assessment & Equalization has already assessed the economic situation and has been evaluating the action to be taken prior to the auditor general's recommendation.
Area of Concern	Observation(s)
Lack of Comprehensive Policies and Procedures Manual	During our review, we found A&E has policies and procedures, but lacks a formal comprehensive policies and procedures manual where all of their key processes are contained or codified in a single document.
	<u>Impact</u> Failing to develop a formal comprehensive written policies and procedures manual could result in duplication of efforts; prohibit directives from being carried out properly, and inconsistency in employees performing their duties and responsibilities in a similar manner.
	Recommendation(s) <u>2010 - 03</u> We recommend A&E develop and implement a comprehensive formalized (written) policies and procedures manual for all key processes and functions in the division. The manual should clearly outline the specific duties, authority and responsibilities for all employees, thus providing the essential foundation needed for establishing employee accountability and management oversight.

	Management's Response: A&E concurs with the Auditor General's findings on this issue. Creation of an A&E Policy and Procedure Manual has been an essential objective of A&E since late 2009. To meet that objective, A&E has been compiling file memos and procedures currently in place, or being developed, to use as a basis for a policies and procedures manual.
Area of Concern	Observation(s)
Lack of Appropriate and On-going Training	The Division of A&E does not formally communicate the division's policies and procedures to the staff for clarity and understanding. During our review, we found all policies and procedures are informally communicated to staff via email and/or a memorandum placed in their assigned work areas. Also, there is no assurance that the policies and procedures are received and properly understood. <u>Impact</u> Not formally introducing policies and procedures to staff may cause employees to violate the policies due to a lack of understanding and clarity. Recommendation(s) <u>2010 - 04</u> We recommend all policies and procedures implemented by A&E be formally introduced, and maintain staff written acknowledgement they have obtained, read, understood, and will abide by the policies and procedures set in place. Management's Response: The division of A&E concurs with the findings of the Auditor General. They also indicated that all A&E Division employees are given a copy of A&E Workplace Rules upon entry of their position into the division. Additionally, employees are instructed to read and adhere to all the policies and procedures of the Management and Budget Department and all Wayne County policies from all departments that are posted on the intranet, Federal Law, State Law, and specific Wayne County policies that are required to be posted on employee bulletin boards.

III. Compliance, Laws, Regulations and Ordinances

In general, compliance means conforming to a law, regulation or ordinance. A compliance system is an organization-wide tool that links legislative and management rules to organizational policies and processes. The objective of such a system is to promote a self sustaining level of operations that minimizes the losses caused to the organization through breaches of laws, regulations and ordinances.

Conclusion

Based on work performed we have concluded that A&E are generally in compliance with the laws, regulations, policies and procedures, and ordinances of Wayne County. However, we did note a single instance of non-compliance.

Area of Concern	Observation(s)
Failure to File Annual Disclosure Form Timely	It has been determine that A&E failed to file the conflict of interest disclosure form with the County Clerk's office by the deadline as in accordance with Section 120.223 of the Wayne County Procurement Ordinance. The conflict of interest disclosure form requires personnel in A&E with direct involvement in procurement activity to disclose whether they or immediate family members have a financial interest or are employed by vendors doing business with the County.
	<u>Impact</u> Failing to file the annual conflict of interest disclosure form with the Wayne County Clerk's office by March 15 of this year has resulted in A&E not being in compliance with the Wayne County Procurement Ordinance.
	Recommendation(s)
	<u>2010-05</u> A&E should have a control mechanism in place to ensure compliance is met by filing the annual conflict of interest form by the due date each year.
	Management's Response: No auditee comments.

Area of Concern	Observation(s)
Lack of Job Classification for Project Consultants	Assessment and Equalization currently has five (5) staff members that are classified as project consultants. Although, Wayne County Department of Personnel/Human Resources (P&HR) has not formally adopted this job classification or its positions educational requirement, experience and job responsibilities. <u>Impact</u> By the P&HR not formally adopting the project consultant classification and communicating the procedures and requirements, this eliminates the cohesive job classification system and occupational grades formalized by the P&HR for all departments/divisions/programs.
	Recommendation(s)
	<u>2010-06</u> We recommend P&HR formally adopt and communicate the job classification of Project Consultant and formulate a job description and requirements for the position.
	Management's Response:
	No auditee comments.

IV. Financial Activity

The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an organization or segment that is useful for a wide range of users and in making economic decisions. Financial statements and related information are intended to be understandable, relevant, reliable and comparable to prior periods. Reported assets, liabilities and equity is directly related to an organization's financial position; while, receipts and expenditures are directly related to an organization's financial performance.

Conclusion

We have concluded based on work performed A&E has reasonable budgetary controls in place related to filled positions or full-time equivalent (FTE's). We noted an area where we believe risk and control activities could be strengthened.

Area of Concern	Observation(s)
Lack of Controls Over Approved FTE's	During our review, we found A&E is not in compliance with the commission approved budget for the current fiscal year. Specifically, A&E currently has an unbudgeted management position (Department Administrator 1) for the Personal Property Section filled, however the position was eliminated in the approved budget. Impact The unbudgeted position will be an additional cost to A&E in the amount of \$108,000 including fringe benefits for the fiscal year ended September 30, 2010. However, it does not appear that A&E's overall expenditures will exceed their budget.
	Recommendation(s)
	<u>2010-07</u> We recommend A&E implement adequate budgetary controls to mitigate the risk of non-compliance.
	Management's Response:
	No Auditee Comments

<i>Prior Recommendation(s)</i>	
Reclassify Fee-Based Revenue	The Office of Legislative Auditor General performed a financial related audit of the Wayne County Assessment and Equalization Division as of September 30, 1999. Our findings and recommendations were communicated to the audit committee on January 17, 2001. The office also performed a follow up review (DAP: 2003-57-008) to determine whether the recommendations were resolved. This report was dated July 15, 2003. The following is the unresolved recommendation: Recommendation We recommend the Assessment & Equalization Division management ensure the Department of Management & Budget (M&B) correctly reclassifies fee-based revenue.

Status: Unresolved

Based on our follow-up review, Assessment and Equalization took action to satisfy the recommendation by providing the required documentation to implement the change. However, Management & Budget has failed to make the necessary change to the line item to bring about clarity on the classification of charges for services.

Noteworthy Accomplishments

- Have capable leadership.
- Implementing cross training of employees.
- Establishment of the MFR Program.
- Respected reputation in the community.

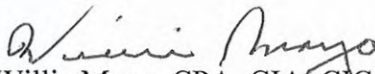
Conclusion

Overall conclusion - Based on our limited review, management appears to have identified key areas of risk within the division and established reasonable control activity to manage and mitigate such risk. However, a corrective action plan is deemed necessary to address the recommendations identified in this report.

Corrective Action Plan – will be required within 30 days after this report is received by the Wayne County Commission.

This report is intended solely for the information and use of A&E, County Management and the County Commission and should not be used for any other purpose. This restriction is not intended to limit distribution of the report which is a matter of public record.

Sincerely,


Willie Mayo, CPA, CIA, CICA
Auditor General