



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Mohave County

As of June 6, 2012



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 24, 2012

Board of Supervisors
Mohave County, Arizona

Ron Nicholson, Assessor
Mohave County, Arizona

Ron Walker, Manager
Mohave County, Arizona

We have performed a review of the expenditures of the Mohave County Assessor's Property Information Storage and Retrieval Conversion and Maintenance Fund (Fund) at your request to determine whether monies were spent in accordance with Arizona Revised Statutes (A.R.S.) §11-269.06, as amended by Laws 2006, Ch. 206. The period covered by our review began on July 1, 2006, based on the Mohave County's record-retention policies and ended on December 31, 2011, when A.R.S. §11-269.06 was repealed by Laws 2006, Ch. 206.

Our procedures were limited to testing expenditures of the Fund for the period of July 1, 2006 through December 31, 2011, and consisted primarily of examining selected accounting records and related documentation to determine whether allowable expenditures were made from the Fund and whether the County's internal control policies and procedures were followed. Our review was more limited in scope than would be necessary to give an opinion on internal controls or compliance. Accordingly, we do not express an opinion on the effectiveness of internal controls or on compliance or ensure that all deficiencies in internal controls or instances of noncompliance are disclosed.

As a result of our review, we noted certain deficiencies in internal control and instances of noncompliance that the County should correct. Our findings are described in the accompanying summary.

Should you have any questions concerning our audit, please let us know.

Sincerely,

Debbie Davenport
Auditor General

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INTRODUCTION & BACKGROUND

The primary responsibility of the Mohave County Assessor's Office (Office) is to identify all property subject to taxation within the County, determine who owns the property, determine the property's fair value, maintain the assessment roles, and process appeals and exemptions as specified in Arizona Revised Statutes (A.R.S.). In addition, the Office maintains current property ownership records and property assessment maps.

In fiscal year 2001, the County Assessor's Property Information Storage and Retrieval Conversion and Maintenance Fund (Fund) was established through A.R.S. §11-269.06. The Fund was established to help defray the costs of converting the County Assessor's property information to its current geographic information system and to train employees to operate the system. The geographic information system is a computer-based system that is used in conjunction with other computer hardware, software, and Web-based applications to store, analyze, value, and map property data. All counties with a population of 500,000 persons or less were eligible to implement the Fund.

The statute establishing the Fund specifically provided that monies could be used to purchase hardware and software, including a geographic information system, and to train employees to operate the system. In fiscal year 2007, A.R.S. §11-269.06, as amended by Laws 2006, Ch. 206, prohibited costs for travel and employees' salaries for attending training. Therefore, such costs were no longer allowed to be charged to the Fund effective September 21, 2006. In addition, the statute provided that the county general fund was to reimburse the Fund for improper charges. However, the Fund was repealed by Laws 2006, Ch. 206, effective December 31, 2011, with the remaining fund monies to be reverted to the County's General Fund as of that date.

The County should have adequate policies and procedures to help ensure that all public monies are spent in accordance with statutory requirements

Monies in the Mohave County Assessor's Property Information Storage and Retrieval Conversion and Maintenance Fund (Fund) should be spent in accordance with A.R.S. §11-269.06, as amended by Laws 2006, Ch. 206. Monies in the Fund were to be used only to purchase hardware and software, including a geographic information system, and to train employees to operate the system. Further, while the training costs were allowed to be charged to the Fund, costs related to travel and employee salaries to attend training were not. However, some monies spent from the Fund were not in accordance with statute.

Training and travel costs were not allowed

Auditors found that certain training costs totaling \$4,715 and travel costs totaling \$82,947 were improperly charged to the Fund during the period of July 1, 2006 through December 31, 2011. Specifically, the County did not have guidelines for employees to follow for identifying the training costs that were allowable fund charges. It was the position of the County Assessor's Office that the cost of conferences charged to the Fund were allowable because they provided general discussions involving the Office's duties and the conversion to a geographic information system. However, the conferences covered a broad range of topics and did not specifically train employees to operate the system. It was also the position of the County Assessor's Office that the travel costs could continue to be charged to the Fund after the effective date of the amendments by Laws 2006, Ch. 206, based on legal advice obtained from the Mohave County Attorney's Office. However, the legal advice concluded that A.R.S. §11-269.06, as amended by Laws 2006, Ch. 206, did not specifically prohibit fund expenditures for travel after the effective date of the amendment if the Assessor had budgeted for them before the effective date of the statute.

Desktop computer leases and software maintenance costs were not allowable

Auditors noted that \$154,451 of leasing costs for desktop computers was charged to the Fund during the period of July 1, 2006 through December 31, 2011. It was the position of the County's Finance Department that these expenditures were allowable fund charges. However, the desktop computers were not allowable because they were leased and not purchased, as required by the law, and because they were used for general purposes and not for those purposes specific to the Fund. Additionally, while the costs for a computer-assisted mass appraisal software's purchase and implementation were appropriately charged to the Fund, the annual maintenance costs associated with the software, totaling \$358,297 for the period and primarily consisting of support services and upgrades, were not allowable; only the portion of the total annual costs related to training were allowable. Although the law provided that fund monies were to be spent to help defray the cost of automating the County Assessor's property information, the law stated that the monies were not to be used for expenses other than those specified. As such, the law did not specifically provide for the Fund to pay for the ongoing annual software maintenance costs.

County policies and procedures were not always followed

Additionally, in our sample of 70 fund expenditures tested for the period, we noted the following internal control deficiencies, which occurred because county policies and procedures were not consistently followed:

- For 2 of 70 expenditures tested, the County improperly coded the expenditure. Because training and travel expenditures were not always correctly coded, auditors were unable to determine the total amount of training and related travel costs charged to the Fund for the period that may have been unallowable.
- For 1 of 70 expenditures tested, the County had no documentation to support the expenditure.
- For 1 of 70 expenditures tested, the County did not have sufficient documentation to determine whether the expenditure was allowable.

Recommendation

To help ensure all public monies are spent in accordance with statutory requirements, if necessary, the County should review and modify its existing policies and procedures for approving expenditures from restricted funds. When deemed necessary, legal counsel should review expenditures to ensure they comply with applicable contracted or legal requirements. In addition, the County should ensure that its policies and procedures are consistently followed to help ensure that expenditures are correctly recorded and sufficiently supported by documentation.

COUNTY RESPONSE

Mohave County Office of Financial Services



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July 19, 2012

Mr. Jay Zsorey, CPA
c/o Office of the Auditor General
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Phoenix, AZ 85018

Re: Response to Audit Report

Dear Jay,

Mohave County has received your draft report of the audit performed on the Mohave County Assessor's Property Information Storage and Retrieval Conversion and Maintenance Fund. While we take exception to some of the points in the findings, we concur with the recommendation and will take all necessary steps to implement the suggested changes.

Sincerely

John F. Timko, Deputy County Manager
Mohave County, Arizona

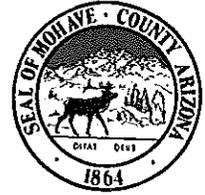
Cc: Ron Walker, County Manager
Ron Nichol森, Assessor
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Aug 1, 2012

Re: Information Storage & Retrieval Fund Audit

Mohave County Assessor's Response:

My staff and I have been most impressed with the Auditor General Staff's professionalism and cooperation in seeking what should have constituted a proper use of the fund. In retrospect, should we (Assessors statewide) successfully lobby a comparable bill through the legislature, I would hope that we could seek the Auditor General's input in advance so as to write a bill that would achieve our goals. It has become obvious to me that we should have been more specific in crafting the wording. But bills are also often crafted in such a way as to leave room for interpretation. I have learned a lot from this experience.

As you stated, we relied upon the legal advice of the Mohave County Attorney's office as to our expenditures for travel and training. This funding source has brought the Mohave County Assessor's office into the 21st Century technologically and without it Arizona Assessors would still be in the dark ages. A large portion of the training and travel budget was applied to our Cartography Staff, enabling them to go from paper maps to state-of-the-art digital. We purchased a state-of-the-art Computerized Mass Appraisal System and trained our staff in its use. Mohave County led the way for nine other counties in Arizona who have adopted our system. The fund twice paid for orthophotography to over fly our county and for the purchase of integrated software systems enabling the public and county staff to access Geographic Information (GIS) on the internet. Though our latest orthos are three years old and have yet to be made available on the internet, with the web integration software we bought several years ago, we anticipate the county will make these available to all in the near future.

When this fund was created by statute, Assessors across the state had funding but no direction as to what to purchase. Exposure to what products were available, demonstrations as to their application, and a chance to rub shoulders with other professionals and learn from their experiences could only best be accomplished by attending professional conferences. I will tell you that we chose well in our purchases and my staff is to be complemented for successfully embracing a steep learning curve. I am saddened that the County swept the remainder of the fund and we will not be able to complete our objectives.

Our industry (assessing) is in a constant accelerated rate of change. Our society is in the Information Age and our populace is in need of greater access to information from their government so as to make wise and informed decisions. Without a dedicated funding source, I fear we will soon fall behind again. But it does feel good to, for once, be on the cutting edge.

Sincerely,

Ron Nicholson
Mohave County Assessor

