

# STATE OF NORTH CAROLINA

**NORTH CAROLINA APPRAISAL BOARD**

**RALEIGH, NORTH CAROLINA**

**FINANCIAL RELATED AUDIT**

**OCTOBER 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

## **EXECUTIVE SUMMARY**

### **PURPOSE**

The purpose of the audit was to determine whether the North Carolina Appraisal Board (Board): (1) had adequate processes to ensure proper licensing of appraisers; (2) investigated complaints timely; and (3) maintained an accurate and secure public database of appraisers.

### **BACKGROUND**

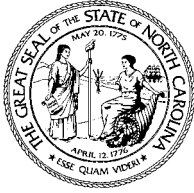
The Board was established in 1991 to license and regulate the appraisal industry. The Board protects the public by assuring that appraisers meet educational and training requirements. In addition, the Board imposes disciplinary action against appraisers and appraisal management companies. The Board has nine members and employs 10 full-time staff to administer its services. As of February 2014, the Board regulated approximately 3,965 appraisers and trainees and approximately 150 appraisal management companies. In 2013, the Board's activities were supported by approximately \$1.2 in license and registration fees.

### **KEY FINDING**

The Board does not have policies and procedures in place to limit access to its appraiser database. The unrestricted access granted to the Board's employees places at risk the security and accuracy of appraiser information provided to the public.

### **RECOMMENDATIONS**

The Board should develop policies and procedures for authorizing, implementing, and maintaining access to its information system. The access should limit the ability to add, delete or modify licensee data to the minimum level necessary to fit the job duties and responsibilities of each employee.



Beth A. Wood, CPA  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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October 30, 2014

The Honorable Pat McCrory, Governor  
Members of the General Assembly of North Carolina  
North Carolina Appraisal Board  
Donald T. Rodgers, Executive Director

This report presents the results of our financial related audit at the North Carolina Appraisal Board. Our work was performed as authorized by *North Carolina General Statutes*, Chapter 147, Article 5A and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our audit identified a matter that is considered reportable under *Government Auditing Standards*. This item is described in the *Audit Findings and Responses* section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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## BACKGROUND

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The North Carolina Appraisal Board was created under *North Carolina General Statute 93E*, to license and regulate the appraisal industry. The Board protects the public by assuring that appraisers meet minimum educational and training requirements. In addition, the Board suspends or revokes the licenses and registrations of individual appraisers<sup>1</sup> and appraisal management companies<sup>2</sup> who violate the provisions of the Board's disciplinary statute.

The Board has nine members, five appointed by the Governor, and four appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate and the Speaker of the House of Representatives. The Board employs 10 full-time employees, including an executive director, deputy director, legal counsel, three investigators and four administrative assistants.

As of February 2014, the Board regulated approximately 3,965 appraisers and trainees and approximately 150 appraisal management companies. In 2013, the Board's activities were supported mainly by the \$1,176,805 collected from new and renewal licensing and registration fees. According to the Board's audit report for the year ended June 30, 2013, total annual revenues were \$1,399,633 and total annual expenses were \$1,180,775. The total cash balance as of June 30, 2013, was \$2,294,683. For the period of July 1, 2013 through February 28, 2014, the Board had total income of \$1,214,697 from fees.

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<sup>1</sup> An appraiser estimates the value of a property for tax, sales, financing, development or insurance purposes and provides a detailed report to the requesting party explaining the value determination.

<sup>2</sup> An appraisal management company acts as a third party intermediary between the lender and appraiser to facilitate the ordering, tracking, quality control, and delivery of appraisal reports.

## **AUDIT OBJECTIVES AND SCOPE**

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The audit objectives were to determine whether the North Carolina Appraisal Board (Board): (1) had adequate processes to ensure proper licensing of appraisers; (2) investigated complaints timely; and (3) maintained an accurate and secure public database of appraisers.

The audit scope included Board operations for the period July 1, 2013, through February 28, 2014.

## **METHODOLOGY**

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To accomplish the audit objectives, auditors interviewed personnel, observed operations, reviewed policies, and examined documentation, as considered necessary in the circumstances.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. 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.

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## AUDIT FINDINGS AND RECOMMENDATIONS

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### THE ACCURACY OF THE LICENSED PRACTITIONER LIST COULD BE JEOPARDIZED BY INAPPROPRIATE ACCESS TO DATA

The North Carolina Appraisal Board (Board) does not have policies and procedures in place for authorizing, implementing, limiting or monitoring access over its appraiser information database.

This unrestricted level of access allows the opportunity for inaccurate and unauthorized changes to appraiser licensing and certification data to go undetected. As a result, consumers could rely on an improperly licensed or improperly trained appraiser to provide information. A consumer's ability to obtain sufficient financing could be harmed if an appraiser does not accurately assess real estate values.

The Board did not restrict their staff members' access to the appraiser database to the minimum necessary to carry out their job responsibilities. All board employees (executive director, deputy director, legal counsel, investigators, and administrative assistants) have unrestricted ability to add, delete, modify, or disclose sensitive data regarding appraiser or appraisal management company records. The database contains individual appraiser information such as address, phone number, licensing status (active, suspended, revoked), continuing education, fees, complaints and disciplinary action. Appraiser management companies, banking institutions, individuals and tax authorities use the online database to verify and select appraisers.

The Statewide Information Security Manual<sup>1</sup> and the Federal Information System Controls Audit Manual<sup>2</sup> requires that access to information technology resources be controlled and managed to ensure that only authorized persons have access and that the access is limited to the level necessary for the individual's job responsibilities and the agency's business needs.

*Recommendation:* The Board should develop policies and procedures for authorizing, implementing, and maintaining access to its appraiser database that restricts an employee's access to the minimum necessary to perform job duties.

*Board Response:* See Appendix: Board Response Letter.

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<sup>1</sup> The State of North Carolina Statewide Information Security Manual prepared by the Enterprise Security and Risk Management Office specifies that "Access to State information technology assets shall be controlled and managed to ensure that only authorized devices/persons have access as is appropriate for an agency in accordance with the agency's business needs."

<sup>2</sup> Federal Information System Controls Audit Manual (FISCAM) prepared by the United States Government Accountability Office states that "Access controls limit or detect inappropriate access to computer resources (data, equipment, and facilities) ... Access control policies and procedures should be formally developed, documented, disseminated, and periodically updated ... For access controls to be effective, they should be properly authorized, implemented, and maintained ... determine what type of access (for example, read, modify, delete) users need to fulfill their responsibilities."

## APPENDIX: BOARD RESPONSE LETTER

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### NORTH CAROLINA APPRAISAL BOARD

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October 27, 2014

Ms. Beth A. Wood, State Auditor  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699-0601

Dear Ms. Wood:

We have reviewed your report and have the following comments.

Even before being notified of this audit process, the Board was aware that our database had become outdated and had negotiated with a software provider to design and implement a new system to improve service to our licensees, provide better access to public records, and enhance the security and management of our records. This new database will have the ability to restrict access, and the ability to make changes to records, according to each staff member's job duties. We expect these changes to be completed in the first quarter of 2015.

Although there is no specific policy on this issue, we do recognize the necessity of such controls and have stressed to our staff the importance of not changing any of the information in the database. The new system will be accompanied by a written policy to clarify who may access, enter, or change licensee records.

We are pleased that the audit seemed to find our program in compliance in all other areas. We appreciate the time that the State Auditor's office took to review our program and the recommendations you have provided. We trust that once these changes are in place we will be in compliance with all of our statutory requirements.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Donald T. Rodgers".

Donald T. Rodgers,  
Executive Director

DTR:ro  
cc: Charles J. Moody, III

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
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