

DEPARTMENT OF REVENUE

**ADMINISTRATION OF
AD VALOREM TAX PROGRAM**

Performance Audit

For 2007 and 2008 Calendar Years



EXECUTIVE DIRECTOR OF THE DEPARTMENT OF REVENUE

Pursuant to Section 20.21(1), Florida Statutes, the head of the Department of Revenue is the Governor and Cabinet, which consists of the Governor, Attorney General, Chief Financial Officer, and the Commissioner of Agriculture. Pursuant to Section 20.05(1)(g), Florida Statutes, the Governor and Cabinet is responsible for appointing the Executive Director of the Department of Revenue. Lisa Echeverri served as the Executive Director during the audit period.

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DEPARTMENT OF REVENUE

Administration of Ad Valorem Tax Program

SUMMARY

This section of the report summarizes the results of our audit of the administration of the Ad Valorem Tax Program of the Department of Revenue (DOR).

Finding No. 1: DOR still has not developed uniform market area guidelines that would establish criteria for the identification of market areas by the county property appraisers.

Finding No. 2: Although the DOR’s Field Manual has references to the Uniform Standards for Professional Appraisal Practice (USPAP), and DOR and other State agencies require compliance with USPAP by contracted appraisers, compliance with USPAP is not mandated for DOR appraisers.

Finding No. 3: DOR has not fully implemented the International Association of Assessing Officers statistical standards concerning the COD applicable to in-depth studies.

Finding No. 4: Problems with DOR’s sampling plan caused some in-depth studies to have an inadequate number of samples in certain strata, and the lack of samples made it difficult for DOR to accurately calculate statistical measures for those strata and the overall level of assessment for those counties.

Finding No. 5: The methods used by DOR to evaluate the representativeness of the samples in its sales qualification studies could be improved to ensure independent and accurate results.

Finding No. 6: Appraisal reports and related DOR records were not always adequate to ensure that value estimates for subject properties were reliable and reasonably supported. As a result, to the extent the assessment levels published by DOR for the counties included in our review were based upon appraisal ratio studies, such assessment levels may not be accurate. Additionally, a more thorough verification of the counties’ appraisal sample property characteristics is needed.

Finding No. 7: DOR did not ensure that property descriptions by county property appraisers were adequate for changes made so that appropriate changes in the population could be verified. Also, we found no evidence to support verification by DOR appraisers that affected populations identified by county property appraisers were complete. Finally, we noted instances in which DOR changed its appraisals based on “superior” sales data provided by the county property appraiser; however, it was not obvious to us why the property appraisers’ sales were considered superior and there was no explanation or documentation in DOR’s records to support the supposed superiority.

Finding No. 8: DOR’s policy of allowing 15 percent across-the-board adjustment for the 8th criterion (net proceeds of sale after deduction of fees and costs) has no documented basis, and an incorrect adjustment could have a significant fiscal impact on school funding and local government revenues.

BACKGROUND

Pursuant to Section 195.002, Florida Statutes, the Department of Revenue is responsible for the general supervision of the assessment and valuation of property so that all property is placed on the tax rolls and is valued according to its just valuation, as required by the Constitution. The Department also has supervision over tax collection and all other aspects of the administration of such taxes. The law further provides that the supervision by the Department consist primarily of aiding and assisting county officers in the assessing and collection functions, with particular emphasis on the more technical aspects. In this regard, the Department is required to conduct training to upgrade assessment skills of both State and local assessment personnel.

To carry out its assigned duties, Chapter 195, Florida Statutes, requires the Department to do the following:

- Prescribe reasonable rules and regulations for the assessing and collecting of taxes to be followed by property appraisers, tax collectors, clerks of the circuit court, and value adjustment boards.
- Promulgate rules and regulations for the exchange of information among the Department, the property appraisers' offices, the tax collector, the Auditor General, and the Office of Program Policy Analysis and Government Accountability.
- Establish and promulgate standard measures of value not inconsistent with those standards provided by law, to be used by property appraisers in all counties, including taxing districts, to aid and assist them in arriving at assessments of all property.
- Conduct constant research and maintain accurate tabulations of data and conditions existing as to ad valorem taxation, annually publish such data as may be appropriate to facilitate fiscal policymaking, and annually make such recommendations to the Legislature as are necessary to ensure that property is valued according to its just value and is equitably taxed throughout the State.
- Prepare and maintain a current manual of instructions for property appraisers and other officials connected with the administration of property taxes.
- Promulgate uniform definitions for all classifications of property.
- Review the assessment rolls of each county and conduct, no less frequently than once every two years, an in-depth review of the assessment rolls of each county.
- Issue a notice to any property appraiser who the Executive Director has determined has one or more classes or other strata of property listed on the assessment rolls in a manner inconsistent with the requirements of law, or is otherwise not assessing in accordance with law.
- Annually, not later than 15 days following approval of the assessment roll for a county pursuant to Section 193.1142, Florida Statutes, publish sales ratio studies for that county.
- Periodically review the assessments of new, rebuilt, and expanded business reported according to Section 193.077(3), Florida Statutes, to ensure parity of level of assessment with other classifications of property.
- Review the assessments of new and expanded businesses granted an exemption pursuant to Section 196.1995, Florida Statutes, to ensure parity of level of assessment with other classifications of property.
- Determine each year whether the several counties and municipalities of this State are assessing the real and tangible personal property within their jurisdiction in accordance with law.

FINDINGS AND RECOMMENDATIONS

Instructions for County Property Appraisers and Property Tax Oversight Staff

Finding No. 1: Uniform Market Area Guidelines

Since our report No. 13062, issued in October 1997, we have reported that the Department of Revenue (DOR) had not complied with Section 193.114(2), Florida Statutes, which required DOR to promulgate regulations that include market area codes established according to DOR guidelines. Effective July 1, 2008, Chapter 2008-173, Laws of Florida, removed the requirement that DOR promulgate regulations; however, DOR is still required to provide for market area code guidelines pursuant to Section 193.114(2)(l), Florida Statutes (2008). The concept of market area guidelines involves identifying market areas, which are geographical real property groups, based on statutory real property classes within each county. The establishment of the market areas would also facilitate the creation of market area codes, the function of which is to identify the real property groups that have been geographically stratified into market areas based on the statutory classes. The establishment of market area codes will enhance DOR's ability

to evaluate market data, facilitate more representative samples for its in-depth reviews, and improve its analyses of tax rolls.

Our current review disclosed that the Department had not established the required guidelines. In response to our inquiry, Department personnel stated that the guidelines should be established by September 2009.

Recommendation: DOR should ensure that market area code guidelines are established by the anticipated September 2009 date.

Finding No. 2: Applicability of USPAP to DOR Appraisers

All Florida registered, licensed, or certified real estate appraisers are required by Section 475.628, Florida Statutes, to comply with the Uniform Standards of Professional Appraisal Practice (USPAP), developed by the Appraisal Standards Board of The Appraisal Foundation. However, Section 475.612, Florida Statutes, provides an exception for any employee of a local, State, or Federal agency who performs appraisal services within the scope of her or his employment and is not required to be registered, licensed, or certified to perform appraisal services.

The Field Manual used by DOR’s appraisers, includes references to the USPAP, and states that the standards are provided as a guide but are not binding requirements. However, DOR currently requires contracted appraisers to adhere to USPAP standards. Other State agencies, such as the Department of Environmental Protection and Department of Transportation, require adherence to USPAP standards by staff and contracted appraisers. Required use of USPAP by DOR appraisers would promote consistency in DOR appraisals performed and would enhance the quality and credibility of the work product produced by DOR in the conduct of the in-depth studies.

Recommendation: DOR should consider the adoption of USPAP standards as a mandatory requirement rather than a nonbinding guideline.

In-depth Reviews

Article VII, Section 4 of the State Constitution requires that a just valuation of all property for ad valorem tax purposes be made. The factors to be considered in deriving just valuation are defined in Section 193.011, Florida Statutes. DOR conducts in-depth reviews of the counties’ assessment rolls to determine whether the assessments shown on the rolls are indicative of just value of the property. Section 195.096(3)(a), Florida Statutes, establishes seven classes of property, commonly referred to as strata, as follows: (1) single family residential, (2) multi-family residential, (3) agricultural, historic, and other use-valued property, (4) vacant lots, (5) nonagricultural acreage and other undeveloped parcels, (6) improved commercial and industrial property, and (7) taxable institutional or governmental, utility, locally assessed railroad, oil, gas and mineral land, and other real property, which are to be included in the results of DOR’s in-depth reviews. DOR is required to publish the results of its in-depth reviews for each county tax roll as a whole and independently for each class of property. When one class comprises less than five percent of a county’s total assessed value of all real property on the previous assessment roll, DOR may combine it with one or more other classes of real property for purposes of the in-depth review or use the weighted average of the other classes for purposes of calculating the level of assessment for all real property in a county. DOR’s published standards for tax roll approval require that the county’s assessment for an individual stratum and in total be at least 90 percent or greater of DOR’s appraised value (i.e., at least a 90 percent level of assessment). A review notice must be issued to a county property appraiser who has one or more of these classes of property listed on the assessment rolls in a manner inconsistent with these requirements. If the county property appraiser fails to make the necessary

corrections, the assessment roll will be disapproved and the procedure for an interim assessment roll outlined in Section 193.1145, Florida Statutes, will begin. A response to the notice is required within 15 days and, if the situation is unresolved, an administrative order is issued detailing the necessary corrective actions.

For the in-depth reviews of the 2007 and 2008 assessment rolls, DOR used two different methodologies consisting of the all-sales methodology and the all-appraisal methodology. The all-sales methodology was utilized in the value groups of those strata with adequate sales data. In the value groups of those strata with very limited sales activity, the all-appraisal methodology was employed.

Table 1 summarizes the number of sale and appraisal sample items by stratum Statewide. Stratum 7 for each county comprised less than five percent and, therefore, was not studied.

Table 1

Stratum	2007			2008		
	Qualified Sales	Appraisals	Total	Qualified Sales	Appraisals	Total
1	114,271	0	114,271	16,284	157*	16,441
2	2,419	132	2,551	219	58	277
3	0	665	665	0	563	563
4	3,651	122*	3,780	1,707	167*	1,874
5	243	128*	371	109	169*	278
6	2,081	1,204	3,285	356	1,043	1,399
Total	122,665	2,258	124,923	18,675	2,157	20,832

**Contract Appraisals (for the 2007 in-depth studies, 250 of the total 2,258 appraisals were contracted to outside appraisers, and for the 2008 in-depth studies, 493 of the total 2,157 appraisals were contracted to outside appraisers.)*

When the all-sales and all-appraisal results are completed and merged, the field work portion of the in-depth review is complete. Each county property appraiser is afforded an opportunity to review with DOR staff each appraisal sample item utilized in the study and sales qualifications exceptions. Because of the volume of sales utilized in the all-sales methodology, the value of sale items are not reviewed individually. After the review, a summary report is produced indicating the results of the in-depth study, which is used in the tax roll approval process. Estimated levels of assessment (value-weighted mean assessment ratios) for each county and the entire State are certified to the Commissioner of Education for use in the equalization of required local effort funding for school districts.

Finding No. 3: Statistical Standards

In our report No. 2007-037, we recommended that DOR reconsider its statistical standards and implement those standards recommended by the International Association of Assessing Officers (IAAO) for evaluating the adequacy of county tax rolls. IAAO is a property tax organization that establishes standards for mass appraisal applications.

The IAAO updated its standards in July 2007 and recommends that statistical measures for the Coefficient of Dispersion (COD - a measure of the average percentage by which individual ratios vary from the median, or middle, ratio) be divided into three tiers for each of the following property types: residential improved, residential vacant land, income-producing properties (commercial, industrial, apartments), and other (non-agricultural) vacant land. The

COD levels within the IAAO standards are determined by jurisdiction sizes, population densities, development and market activity, and area improvement ages, where applicable. A low COD indicates that county assessment levels within the area or class of property are uniform, whereas a high COD indicates that properties are being assessed at inconsistent percentages of market value. As an example, for single-family residential properties the IAAO recommends a maximum COD measure of 10 for newer or more homogeneous areas; 15 for older or heterogeneous areas; and 20 for other residential properties consisting of rural, seasonal, recreational, manufactured housing, and two-to-four unit family housing. During the 2007 and 2008 in-depth study years, rather than using these IAAO-recommended measures, DOR used a COD measure of 15 for stratum 1; 20 for strata 2, 4, 5, and 6; and 25 for stratum 3.

In response to our report No. 2007-037, the DOR Executive Director stated that there were major practical and technical difficulties with fully implementing the IAAO standards, including imperfections of conducting ratio studies and the development of specific criteria for fairly segregating counties into three categories. While we recognize that there could be difficulties encountered in this effort to fully implement the IAAO standards, we remain of the opinion that the Department has the capability to accomplish this objective and should strive to use these standards or document the reasons why they cannot be implemented. Furthermore, the statistical reliability of the in-depth studies would be enhanced with the full implementation of the IAAO standards for the COD.

Recommendation: DOR should fully implement the IAAO statistical standards relative to the COD or document the reasons why this cannot be accomplished.

Representativeness in Ratio Studies

Section 195.096(2)(c), Florida Statutes (2007), states, “In conducting assessment ratio studies, the department must use all practicable steps, including stratified statistical and analytical reviews and sale-qualification studies, to maximize the representativeness or statistical reliability of samples of properties in tests of each classification, stratum, or roll made the subject of a ratio study published by it.” This section further states, “In addition, to the greatest extent practicable, the department shall study assessment roll strata by subclassifications such as value groups and market areas for each classification or stratum to be studied, to maximize the representativeness of ratio study samples.”

Finding No. 4: Inadequate Sample Sizes in the Sampling Plan

Section 195.096(2)(c), Florida Statutes, requires DOR to study assessment rolls by value groups or market areas to assure the representativeness of ratio study samples. To allow for more accurate statistical measures and to improve sample representativeness, DOR applies a value group sampling plan when evaluating tax rolls. DOR used four value groups within each strata, with each value group representing approximately 25 percent of the total property value of the strata. When calculating the level of assessment, this sampling plan also aids in identifying price-related inequities within a stratum. In previous reports, most recently our report No. 2007-037, we reported that DOR encountered some problems while utilizing the sampling plan, which resulted in some value groups lacking adequate sample items. Similar problems were found during this audit, as follows:

- When conducting ratio studies, a minimum of two sample items, sales or appraisals, is necessary for calculating statistical measures for each value group. DOR requires a minimum of five sample items per value group when applying the all-sales methodology and two sample items per value group when applying the all-appraisal methodology. When a value group does not achieve the minimum desired sample size, the value group is effectively not tested. For the 35 counties studied in 2007, 8 value groups had less than the minimum number of sample items and for the 32 counties studied in 2008, 14 value groups had less than the

minimum number of sample items. DOR's sampling plan did not contain a contingency for producing ratio study results when value groups did not have an adequate number of samples. Therefore, no ratio study results were available for those 22 value groups. Twenty-one of the 22 value groups that did not have the minimum number of sample items were in the value groups with the highest-valued properties. The reliability of the statistical results for the 2007 and 2008 in-depth studies was diminished because these high value groups were not represented. Appraisal samples are selected from the prior year tax roll in order to provide DOR staff adequate time to complete the in-depth studies prior to submission of the current tax roll, and according to DOR staff, inadequate sample sizes are generally the result of changes that occur between the prior year and current year tax rolls under study, or because the population from which to draw samples is less than the desired sample size. While we agree as to the cause of the inadequate sample sizes for the 2007 and 2008 studies, DOR had not developed a contingency for producing ratio study results when it discovered that there were no results for the 22 value groups.

In addition, the 95 percent level of confidence objective required by Section 195.096(2)(f), Florida Statutes, was not always obtained (i.e., the population did not always fall within the required range). DOR records indicate 19 strata in 14 counties did not achieve the 95 percent level of confidence objective for the 2007 in-depth study, and 26 strata in 19 counties did not achieve the required level of confidence objective for the 2008 in-depth study. Inadequate sample sizes likely contributed to the inability to achieve the 95 percent level of confidence required by Section 195.096(2)(f), Florida Statutes. Additionally, a minimal sample size for each value group diminishes the reliability that can be placed on the results. While two sample items can be used to measure the amount of variation among ratios within value groups, the margins of error are frequently large, the confidence interval (i.e., actual range of ratios) is unacceptably wide, and the results often fail to meet the reliability objectives.

- Under DOR's sampling methodology, any parcel within a stratum whose assessed value represented more than 15 percent of the total value of the stratum was removed from the sample and placed in a special "exception" value group. For the 2007 and 2008 in-depth studies there were 5 and 8 "exception" parcels, respectively. *The Standard on Ratio Studies* published by the IAAO states, "Very high-value properties should not be ignored or assumed to be appraised at the legal or general level for indirect equalization studies. To value the property for ratio study purposes the equalization agency should conduct an appraisal or audit of such properties and adjust as necessary the values developed by the local jurisdiction." DOR received an annual appropriation of \$447,600 in the 2006-07 and 2007-08 fiscal years, of which \$28,800 was used to contract for the appraisals for 7 of the 13 exception parcels. The remaining 6 exception parcels were not appraised. Unexpended funds, totaling \$307,366, from these appropriations, after expenditures for these exception parcel appraisals and other appraisal and procedural audit contractual services, reverted to the State General Revenue fund but could have been used to appraise the remaining 6 exception parcels.

Recommendation: DOR should continue to improve its sampling procedures to acquire the desired number of samples per value group to meet minimum sample sizes. Also, to achieve the targeted confidence interval or margin of error objectives, every value group must contain an adequate number of sample items, using sales, appraisals, or a combination of both. Also, if the exception parcels are separated from the sample population, these parcels should be routinely appraised or, at a minimum, a procedural audit should be completed to determine if the appraisal records are accurate as to the property descriptions and that the value is reasonable.

Finding No. 5: Sales Qualification Studies

Section 195.0995, Florida Statutes, requires DOR to randomly sample all sales in each county to determine whether those sales were properly qualified or disqualified for purposes of the ratio studies. This process is referred to as the statutory sales qualification study in the DOR Field Manual. Qualified sales would be considered arm's length transactions. *The Dictionary of Real Estate Appraisal*, published by the Appraisal Institute, defines an arm's length transaction as "a transaction between unrelated parties under no duress." To assist the county property appraisers in qualifying sales, a list of characteristics that disqualify sales is provided in DOR Rule 12D-8.011, Florida

Administrative Code. Examples of the listed characteristics include transfers evidenced by quit claim deeds, deeds bearing the same family name for grantor and grantee, or deeds to churches or banks. The statutory sales qualification study is a critical part of the in-depth study because it is the primary method by which DOR obtains assurance that the county property appraiser is submitting valid sales data used in decisions relating to level of assessment and other statistical measures. The credibility and accuracy of the results of DOR's all-sales methodology are directly dependent upon the accuracy of the county property appraisers' qualifications of the sales data. The all-sales methodology has become the primary in-depth study methodology utilized by DOR for analyzing tax rolls, particularly for the more densely populated counties comprising most of the taxable value in the State.

DOR's random sample for the study is selected from an un-stratified list of sales submitted to DOR by the county property appraisers. DOR researches the randomly selected sales to determine if county property appraisers have correctly qualified at least 90 percent of those transactions. If DOR finds that more than 10 percent of a county's sales qualification decisions do not fall within applicable criteria, DOR is required to issue a post-audit notification of defects and to follow the procedures set forth in Section 195.097, Florida Statutes.

DOR's Field Manual instructs the DOR appraiser to examine the deed and make a decision as to qualification based on certain criteria. Once all samples have been deed-qualified, the discrepancies, or samples with qualifications upon which DOR and the property appraiser do not agree, are discussed with the property appraiser. The Field Manual states that the property appraiser's office should be contacted and an appointment made to resolve discrepancies. DOR's sales qualifications can be changed after being reconciled with the county's documentation. Examples where changes might be necessary would be circumstances where the county property appraiser may have evidence that the buyer and seller, with different family names, are related, which would result in the sale being disqualified. Other examples would be where the county property appraiser may have qualified a sale to a bank because the bank intended to use the property for a branch rather than the transaction representing a foreclosure action which would result in a disqualification of the sale. An examination of the deed only would not necessarily disclose this information.

We obtained a summary report of all counties included in DOR's 2007 and 2008 in-depth studies. This report indicated the percentage of sales samples that correctly matched between DOR and the property appraisers prior to and after the reconciliation of discrepancies. The summary report showed that for the 2007 study, 18 of the 35 counties (51 percent) failed the 90 percent matching sales qualifications requirement prior to reconciliation, and after the parties reconciled the discrepancies in sales qualifications, only 2 (6 percent) counties (Bradford and Jackson) failed. For the 2008 study, 27 of the 32 counties (84 percent) failed the 90 percent matching requirement prior to reconciliation, and after the parties reconciled the discrepancies, only 1 (3 percent) county (Okeechobee) failed.

We reviewed the statutory sales qualification studies conducted by DOR for each of the four counties we selected for testing during the audit period. As also noted in our report No. 2007-037, there continues to be limited representation of non-residential sales transactions in some counties. We noted, as represented in Table 2, that in some counties residential property sales continue to dominate the statutory sales qualification study samples disproportionately from the population of the tax roll. We recognize that residential sales dominate the number of sales within each county and that random sampling from the overall population of sales from all property types is going to result in mostly residential sales. However, we believe sample representativeness would be further improved if the samples used by DOR in determining whether sales used in the in-depth studies were properly qualified more closely represented the tax roll as a whole. Percentages of residential sales used in the samples of the four counties in our review ranged from 86 percent to 100 percent of the total sample items, while the range of residential properties on the tax rolls compared to the total number of parcels in the county ranged from 74.5 percent to 88.9 percent as shown in Table 2.

Table 2

County	Alachua	Orange	Okaloosa	Martin
Percentage of Residential Parcels to Total				
In-depth Study	86.0	100.0	98.0	88.0
Tax Roll	80.6	88.9	74.5	88.2
Percentage of Non-Residential (All Other) to Total				
In-depth Study	14.0	0.0	2.0	12.0
Tax Roll	19.4	11.1	25.5	11.8
Total Samples	50	50	50	50

Our review of documentation supporting the 13 changes made by DOR during the county review process for the four counties revealed that there was no hard copy documentation supporting the basis for 11 of the 13 changes, contrary to the DOR Field Manual, which requires DOR appraisers to obtain hard-copy documentation to change the qualification of a subject property.

Recommendation: Considering the high percentage of residential sales sampled and the relatively small sample size in the statutory sales qualification studies, DOR should enhance the study by breaking down the sampling of sales by strata, or between residential and non-residential sales, in order to provide better representation among different property types, while maintaining a statistically reliable number of samples for each part of the study. DOR should also ensure that its appraisers obtain hard copy documentation supporting any DOR changes made.

Other Ratio Study Issues

Finding No. 6: Reliance on Appraisal Ratio Studies

DOR utilized the all-appraisal methodology in evaluating the reasonableness of value determinations made by county property appraisers in those strata and value groups that DOR determined did not have adequate sales to support sales ratio sampling (all-sales methodology). This involved DOR performing individual appraisals on a random sample of parcels in various strata and value groups, and then comparing their value estimates with the county property appraisers' values to determine if they were reasonable. Thus, appraisals continued to play a significant role in DOR's ratio studies. The majority of appraisals utilized for such strata were most heavily concentrated in the commercial and industrial property classifications, which normally require the application of more complicated and labor-intensive appraisal procedures.

To the extent that DOR's in-depth review process relied on appraisals of sampled properties, we included appropriate tests of the DOR appraisals. We conducted both office and field reviews of selected appraisals and related documents in accordance with the same appraisal standards and procedures to which DOR and each county property appraiser were required to follow. As described in the following paragraphs, and as similarly noted in several previous audit reports, most recently in our report No. 2007-037, our review disclosed that appraisals and related DOR records were not always adequate to ensure that value estimates for subject properties were reasonably supported. As a result, to the extent the assessment levels published by DOR for the 2007 assessment rolls for Alachua and Orange Counties and the 2008 assessment rolls for Martin and Okaloosa Counties relied upon appraisal ratio studies, some of the

assessment levels for these counties may not be adequately supported. The deficiencies noted were generally related to the application of the valuation approaches, as discussed below.

Sales Comparison (Market) Approach

As described in the Appraisal Institute's publication, *The Appraisal of Real Estate*, 12th Edition, the sales comparison approach involves an estimation of market value of the subject property based on recent sales of comparable properties, with appropriate adjustments (to the comparable properties) for any dissimilarities between the subject and comparable properties. The adjustments to the comparable sales are then totaled to provide individual value indicators for the subject property. The value indicators are then reconciled to arrive at the estimated value of the subject property. We noted the following concerning the use of the sales comparison approach to value improved properties.

- In an active and changing market, it is crucial to use the most recently available comparable sales to accurately reflect the current market. In the 2008 Martin County study, 50 percent of the comparable sales used in the appraisals sold more than two years prior to the appraisals' effective date of value (January 1, 2008). In Okaloosa County 26 percent of the sales were over two years old. DOR appraisers made no time adjustments to the comparable sales in Martin County. If recent sales data is limited in the immediate market area, it may be necessary to expand the sales search to similar nearby markets to obtain sales. If the appraiser chooses to use slightly older sales, an effort should be made to determine changes in market conditions between the sale date and the date of the value estimate in order to make an adjustment for any value differences attributed to time. This can be done through paired sales analyses, conversations with active market participants, and market studies by third parties. If DOR appraisers choose not to obtain sufficient information to make time adjustments to older sales, which may or may not be warranted, they should not use the older sales. Rather, they should make supported adjustments to the older sales only after searching for similar, more recent sales in the immediate or similar nearby market.
- In the Alachua County study, 32 of the 56 appraisal samples in stratum 2 (multi-family) were appraised using the sales comparison approach. Seventeen of these appraisals did not reflect the number of bedrooms and bathrooms. In addition, four other appraisals included one or more comparable sales with no mention of the number of bathrooms. These four appraisals indicated only the total number of bedrooms. In appraising this type property, it is important to consider the number of bedrooms and bathrooms of the subject property and comparable sales in order to ensure similar properties are used in the comparison and to determine whether adjustments need to be made to the comparable sales to account for differences.
- We noted errors and inconsistencies within the sales comparison approach and supporting sales data used in many of the appraisals we reviewed for Martin County. We identified subject and comparable sale properties with incorrect building and land sizes, sales with incorrect improvement ages, photos and land areas, sales including more than one parcel that were treated as one parcel in the appraisal, and many comparable sales lacking evidence of verification of the sale. In one appraisal, we noted a material error in the building area in comparable sale No. 3 for appraisal sample No. 6-2-16474 of the 2008 in-depth study for Martin County in which all of the weight was placed on the value indication of this sale in estimating the value of the subject. This error resulted in a \$740,000 overstatement in the value indication for this comparable sale, which carried forward to the value of the subject property.

Income Approach

As described in the Appraisal Institute's publication, *The Appraisal of Real Estate*, 12th Edition, the income approach involves an estimation of potential gross income, a deduction for losses due to vacancies and unpaid rent, plus miscellaneous income, less operating expenses, resulting in net operating income that is then capitalized into value. Another method is the use of a gross income multiplier, which is estimated from comparable properties whereby the sale price of the comparable property is divided by the gross income. The comparable properties are compared to the subject property and the resulting gross rent multipliers are reconciled into one multiplier, which is applied to the

subject's gross income to arrive at an estimated value for the subject. We noted the following in regard to the application of the income approach used in the in-depth study appraisal samples:

Alachua County

- According to *The Appraisal of Real Estate*, 12th Edition, the date of the value estimate is based on an estimated value as of an exact date in time. Therefore, it is unreasonable and unacceptable to use market data and other known market conditions existing subsequent to a retrospective date of value, in this case January 1, 2007. USPAP further states, "In the absence of evidence in the market that data subsequent to the effective date were consistent with and confirmed market expectations as of the effective date, the effective date should be used as the cut-off date for data considered by the appraiser." According to DOR's records, the DOR appraiser considered information that did not exist as of January 1, 2007, and increased the expense ratio being used to value 24 appraisal samples, thereby decreasing the final value on 27.6 percent of samples. The information relied upon by the DOR appraiser was data from April and May 2007 and DOR records did not indicate the appraiser determined that such data was consistent with market expectations as of the effective date. Absent this new information supplied by the Alachua County Property Appraiser at the final county review, stratum 2 may not have passed statistical measures, potentially causing the tax roll to fail.
- There was a mathematical error in the gross income calculation in the income approach of appraisal sample No. 6-3-46346 (a mobile home park) that resulted in an understatement of the market value by approximately \$950,000, which was not identified by DOR's review appraiser.

Martin County

- The support for 14 of the capitalization rates and 13 of the expense ratios used for the income approach were an average of the rates for many different property types, most of which were not similar uses as the individual subject properties. The use of these capitalization rates and expense ratios may have resulted in unreliable and less than credible value conclusions for these sample items. Furthermore, much of the data used as support for the capitalization rates was outdated and may have reduced the accuracy of the rates used in the analyses.
- There was no evidence of independent verification by the DOR appraiser of the income and expense data used for the income approach in the appraisals, nor were there detailed data sheets for the rental comparables.

Orange County

- The appraiser made the following statement in each of the 16 apartment complex sample appraisals concerning the market rent versus the subject actual rents: "Overall, the subject's rents appear to be at or very near market levels for the age, condition and type of tenants to which they market. The appraiser found the market rents to be considered equal to the actual rents. Since no better data was found to consider the actual rents substantially different from the market rents, the appraiser selected market rents as the most supportable for the direct capitalization technique." However, we found instances where rents of non-comparable properties (dissimilar apartment type and size) were applied to the apartment units of subject properties in determining potential gross income in the income approach. For example, the comparable rent analysis for sample Nos. 2-3-364455 and 2-4-349727 did not provide similar rent comparables for the larger subject apartment units. Rather than include additional comparables with similar sized units, the appraiser applied the smaller apartment unit rents to the larger subject units. In the absence of rent comparables for the larger subject unit sizes, the appraiser should have used the subject actual rents for these units. The appraiser's application of rent amounts (using rents of smaller apartment units for the subject units) appears to have resulted in an underestimate of potential gross income, as well as the resulting value estimate. Therefore, the questionable support for the potential gross income in these instances raises concerns regarding the reliability and credibility of the income estimate and final value estimate.
- Ten of 16 (63 percent) stratum 2 (apartment complex) DOR appraisals included other income amounts, such as clubhouse fees and laundry or vending income, (not subject to vacancy and collection loss) as part of the effective gross income in the income approach to value, whereas the Orange County Property Appraiser provided other income amounts for all 16 sample apartment complexes. However, there was no evidence

provided to support the amounts used by DOR. Furthermore, the market-based annualized amounts for other income included in the valuation calculations were consistently twelve times higher than the stated subject actual annualized amounts for other income, with no justification provided. For example, sample No. 2-3-288275 showed an amount of \$2,000 for the subject's annualized other income, whereas the market-based amount used was \$24,000.

In addition, for 6 hotel appraisals, DOR provided no other income data for these samples while the Orange County Property Appraiser provided other income data, such as conference or convention meeting facility fees, totaling approximately \$210 million for these 6 hotel sample items.

- References were made in the income approach of each of the 16 apartment complex sample appraisals that local studies supporting the operating expense ratios (OER) and capitalization rates could be found in the appraiser's master file. Although we requested copies of these local studies and analyses, they were not provided. Information provided included national studies from third-party providers with no local independent studies or analyses involving local market data specific to the subject properties to support the rates. Apartment profile reports, prepared by a consultant, were also included in the appraisal files. These reports provided details of each apartment complex; however, they did not include data necessary for calculating expense ratios and capitalization rates. Much of the information in these reports contradicted what the DOR appraiser stated in appraisal reports, including, but not limited to, vacancy rates, apartment sizes, and rental rates. Examples of these inconsistencies were found in sample Nos. 2-2-211502, 2-2-264630, 2-2-342293, 2-3-355445, 2-3-364455, 2-4-268538, 2-4-300130, and 2-4-322060.
- To estimate the potential gross income of three of the four shopping center samples, the DOR appraiser used gross area (including gross building area, porches, canopies, and exterior walkways), taken from the county property appraiser's property record card, instead of the area used as the basis for the rent per square foot. Our comparison of gross area to gross building area for these three samples showed a difference of approximately 108,000 square feet with a resulting effect on potential gross income of an overstatement of approximately \$2.2 million.
- For the four shopping center samples, DOR appraisers only used data sources from national publications to estimate the rental rates, expense rates, vacancy rates, and capitalization rates. All of the estimates for these rates were based on national averages, which did not reflect local and regional rates that we observed in some of the publications included in the files. For three of the shopping centers, the appraiser used the same rental rate, which was at the high end of the range for all open air shopping centers nationally. This rate was much higher than rates we observed in some of the publications that provided regional and local data for the subject property types. We also noted that the DOR appraiser used the same category of shopping centers for the source of his estimates of income and expenses for the three neighborhood shopping centers as he did for the regional outlet mall, even though there was more specific source data available to differentiate between the two types. There appeared to be no independent local studies performed to obtain relevant market support for the value estimates.
- Five high-end hotels were appraised using the income approach. DOR appraisal files included poor support for the estimated rental rates, vacancy rates, expense ratios, and capitalization rates, which appeared to reduce the credibility of the value estimates. Nearly all of the narrative explanations in the income approach of these five appraisal reports were identical. Some of the information was irrelevant to some parcels. For example, all five appraisals included a reference to the sample property having a golf course; however, sample No. 6-4-134193 is the only one with an on-site golf course. Additionally, some hotel rate quotes used for support of the potential gross income were dated approximately two months after the appraisal report date.

Tangible Personal Property (TPP)

In the income approaches for Alachua and Orange Counties, the value of TPP was deducted from the estimated subject value in 25 and 21 cases, respectively, with no evidence to support the amounts deducted other than a statement in many of the reports that the number was taken from the county property appraiser tax rolls. There appeared to be no independent verification or determination of the TPP figures by the DOR appraisers.

One appraisal (sample No. 6-3-16240) of a motel in Martin County included the income approach to value. However, there was no deduction for TPP, which resulted in an overstated value estimate.

The deficiencies noted above in the application of the income approach impair the reliability and credibility of value estimates for DOR appraisals.

Cost Approach

The Appraisal Institute’s publication, *The Appraisal of Real Estate*, 12th Edition, describes the cost approach as a set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure plus any profit or incentive; deducting depreciation from the total cost; and adding the estimated land value. Other adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property being appraised.

The cost approach was applied to 4 of the 32 appraisal samples for the 2008 Okaloosa County in-depth study. Two of the four samples (sample Nos. 17865 and 17996) were missing any value for extra features which appear to have understated the final value. At a minimum, these two should have had some value for the asphalt parking that the DOR appraiser noted for these properties. Furthermore, only one of the six land sales used in these approaches had a completed supporting data sheet that verified it was a good sale.

Property Description Errors

The physical inspection of appraisal samples is one method available to DOR to ensure the accuracy of the property appraiser’s physical property data of record. Our analysis of the four in-depth studies (Alachua, Orange, Martin, and Okaloosa Counties) noted discrepancies for three of the four counties, as described in Table 3, between DOR data and county property appraiser data among value-related mistakes of fact (observed factual differences). While DOR reported the discrepancies it noted to county property appraisers, we noted additional discrepancies, such as land or improvement size differences, omission of swimming pools, or the number of buildings on a given parcel, that were not identified by DOR.

Table 3

Study	Number of DOR Samples	Samples With Discrepancies Identified by Auditor General	Samples With Discrepancies Identified by DOR	Number Not Identified by DOR
Alachua	87	18	12	6
Orange	27	8	4	4
Martin	23	5	4	1
Okaloosa	32	2	2	0

Additionally, in the Alachua County in-depth study, we noted that 33 of the 87 samples were not verified by DOR for land size, and in Orange County, the DOR appraiser did not verify land size for 4 of 27 samples.

Recommendation: DOR should assure that generally accepted appraisal standards and techniques, and its policies and procedures, are properly applied and appropriately documented to clearly evidence the accuracy and credibility of all value estimates. DOR should also conduct a more thorough verification of county property description characteristics.

In her response, the Executive Director indicated that the Department did not agree with all of the exceptions cited in the finding. The Department provided details of the points on which it disagrees; however, based on our review of those points, we continue to believe our findings and conclusions are appropriate.

Finding No. 7: DOR and County Property Appraiser Value Changes Subsequent to County Review

Those counties studied using the all-appraisal methodology are provided a conference or “county review” in the final phase of the in-depth study process, where DOR meets with the county property appraiser to present the results of the in-depth study. At this meeting, the in-depth study samples are disclosed and discussed with the county property appraiser. It is at this time the county property appraiser or DOR can change the value on sampled parcels based on additional appraisal information provided by the other party or errors identified in the review process. If the county property appraiser makes changes to a sampled parcel and its population based on the county review process, DOR allows the county to conduct a “mass update” and then resubmit the tax roll for review and approval. A “mass update” consists of allowing the county property appraiser to change the assessed values of sampled properties based on information identified in the county review process and requires correcting similar problems of non-sampled parcels of the same property type (the population which consists of both the sampled and non-sampled items). The in-depth study results are then based on the assumption that the mass updates are equitably done and cover all applicable properties.

For the 2007 and 2008 in-depth studies, DOR enhanced the process of mass updates by requiring the county property appraisers to submit pre-change tax rolls, and to identify all properties in a population that would be affected by the changes to the corresponding sampled parcel changes. DOR’s corrective action plan for report No. 2007-037 dated June 30, 2008, states, “These changes will enable the Department to compare parcel values from the pre-change roll with parcel values from the preliminary roll to verify that a Property Appraiser made all required value changes to a population of parcels.”

In circumstances where the county property appraiser is required to make needed changes after completion of the county review process, the county property appraiser is required to submit a letter to DOR identifying all parcels within the affected population that the county property appraiser has changed. DOR procedures require that, in the letter submitted to DOR by the county property appraiser, the county property appraiser clearly describe the population. The DOR form letters for 2007 and 2008 state that, “The purpose of this letter is to identify, describe and document the population of parcels to which appropriate value changes were made in conjunction with a value change made to an identified, corresponding sample parcel.” The 2007 form letter had a designated place to provide the general description of the affected population; however, the 2008 form letter did not have a designated place to provide the general description of the affected population. Two of the four counties included in our review (Alachua and Martin Counties) were required to submit this form letter to DOR after the county review process was completed. Alachua County submitted nine letters (one for each sample item), none of which included the sample value change amounts and six of which did not include a description of the population in the designated place on the letter; however, DOR accepted the letter without the required information. Martin County submitted four letters, all of which had a minimal (one-word) description of the population, but was also accepted by DOR without sufficient

information as to the description of the population provided. Although DOR's records indicate that the value changes supplied by the county property appraisers were substantially verified, we found no evidence in DOR's records to indicate that DOR appraisers verified that the affected populations supplied by the county property appraisers were complete. Absent a clear description of the population, it is not apparent how DOR was able to verify that all needed changes to the tax roll were made.

We reviewed data from all 2007 and 2008 in-depth studies, comprising 3,184 samples (excluding stratum 3) appraised by DOR over the two-year study period. Subsequent to county review with the property appraisers, 226 samples (7.1 percent) had changes in appraised value by DOR and 293 samples (9.2 percent) had changes in assessed value by county property appraisers. After review with the property appraisers, and after a number of value changes were made, multiple statistical measures improved significantly into the approvable range. During the two-year study period, DOR's acceptable level of assessment measure was 90 percent or greater.

Our analysis of the 226 changes made by the DOR appraisers at the county review (135 changes for the 2007 in-depth study and 91 changes for the 2008 in-depth study) showed that 25 percent of the changes were identified by DOR records as due to the property appraiser possessing superior data. For the four counties included in our review (Alachua, Martin, Orange, and Okaloosa), we noted 13 instances where DOR records identified the reason for the change as the property appraiser providing superior data (e.g., property appraiser used superior sales data); however, DOR records did not contain documentation to support the explanation as to how the data was superior, and it was not clear why the DOR appraiser would not have had this same information available to him or her. Further, it was not obvious to us why the sales used by the property appraisers were considered "superior" to the sales used by the DOR appraiser. While we recognize that there may be instances where the county property appraiser possesses superior data, we believe this should be rare. Therefore, it is not evident why this would be the case in 25 percent of the instances where DOR appraisers made changes. Considering that the process currently in use provides for independent value conclusions, one by a DOR appraiser and one by the county property appraiser, the fact that the county property appraiser's data is frequently determined to be superior in a significant number of cases raises concerns regarding the reliability of the appraisals prepared by DOR appraisers.

Recommendation: DOR should take the necessary action to ensure that population descriptions provided by county property appraisers are adequate to ensure that changes made during the county review process are appropriately made to the applicable populations within the tax rolls. DOR should also document verification that the affected populations identified by county property appraisers are complete. Finally, DOR should document all changes made by the DOR appraiser at county review and explain instances in which the county property appraiser had "superior" data.

Finding No. 8: Adjustments for the 8th Criterion

Section 193.011, Florida Statutes, provides eight criteria to be considered in deriving just value. The 8th criterion states, "The net proceeds of the sale of the property, as received by the seller, after deduction of all of the usual and reasonable fees and costs of the sale, including the costs and expenses of financing, and allowance for unconventional or atypical terms of financing arrangements. When the net proceeds of the sale of any property are utilized, directly or indirectly, in the determination of just valuation of realty of the sold parcel or any other parcel under the provisions of this section, the property appraiser, for the purposes of such determination, shall exclude any portion of such net proceeds attributable to payments for household furnishings or other items of personal property."

DOR Rule 12D-8.002(4), Florida Administrative Code, specifies that if the reported adjustment to the property values for the 8th criterion exceeds 15 percent, county property appraisers must submit to DOR documentation supporting

the total adjustment used. County property appraisers typically deduct 15 percent from all properties assessed for the 8th criterion. In our report No. 2007-037, we noted that DOR’s policy of allowing 15 percent across the board adjustment for the 8th criterion had no documented basis and that an incorrect adjustment could have significant fiscal impact on school funding and local government revenues. DOR, in its response to the audit finding, indicated that it had received public input on this matter from the Property Tax Administration Task Force, which recommended that this issue be removed from further consideration and that based on this input, DOR planned no further action and, during the current audit period, the DOR took no action.

Considering that the fiscal impact of the 15 percent adjustment is significant, as further discussed in our report No. 2007-037, we remain of the opinion that DOR should determine that the factors supporting the establishment of the 8th criteria adjustment at 15 percent are reasonable and supportable in the marketplace.

Recommendation: DOR should collect and analyze pertinent market data, which would accurately quantify the factors to be considered in developing 8th criterion adjustments.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida’s citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

Section 195.096(2), Florida Statutes, requires the Department of Revenue (DOR) to conduct, no less frequently than once every 2 years, an in-depth review of the assessment rolls of each county. For the 2007 and 2008 calendar years, DOR conducted in-depth reviews of the assessment rolls of 35 and 32 counties, respectively. The in-depth reviews are conducted to determine the assessment level of each county for the dual purposes of certifying the adequacy of the assessment rolls and certifying total taxable values and assessment levels to the Department of Education for equalization of educational funding.

Section 195.096(7), Florida Statutes, provides that the Auditor General shall have the responsibility to conduct performance audits of DOR’s administration of the ad valorem tax laws on a triennial basis. The law specifically requires that the Auditor General shall include, for at least four counties reviewed by DOR, findings as to the accuracy of assessment procedures, projections, and computations made by DOR, utilizing the same generally accepted appraisal standards and procedures to which DOR and the county property appraisers are required to adhere. The four counties included in our review were Alachua, Orange, Okaloosa, and Martin.

We conducted this audit in accordance with applicable 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.

This performance audit focused on DOR’s activities related to the administration of the Ad Valorem Tax Program and the conduct of their 2007 and 2008 in-depth studies. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management’s control objectives in the categories of compliance with controlling laws, administrative rules, and appraisal guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.

- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and appraisal guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in audit report No. 2007-037.

Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

Our audit included examinations of various transactions, as well as events and conditions occurring during the period January 2007 through December 2008 (the 2007 and 2008 assessment rolls). In conducting our audit, we:

- Interviewed selected DOR personnel.
- Obtained an understanding of internal controls and tested processes and procedures related to areas within the scope of the audit, including, as appropriate, a walk-through of relevant internal controls through observation and examination of supporting documentation and records.
- Examined the statistical sampling methodology used by DOR in the conduct of the in-depth studies.
- Examined the appraisal reports supporting the in-depth studies including a desk review of 169 appraisal reports prepared by DOR appraisers for the conduct of the 2007 and 2008 in-depth studies.
- Reviewed the process followed by DOR in the final phase of the in-depth studies involving meetings held with the county property appraisers to discuss the sample items used by DOR in the conduct of the in-depth studies.
- Reviewed the quality control processes of DOR pertaining to the reviews conducted by DOR of the appraisal reports prepared by DOR staff as part of the in-depth studies.
- Reviewed DOR actions related to the 8th criterion adjustments reported by the county property appraisers pursuant to Section 193.011, Florida Statutes.
- Evaluated the Department's actions taken to correct the deficiencies disclosed in audit report No. 2007-037.
- Performed various other auditing procedures as necessary to accomplish the objectives of the audit.

Specific information describing the work conducted to address audit objectives is also included in the individual findings.

AUTHORITY

Pursuant to the provisions of Section 11.45(2)(i), Florida Statutes, I have directed that this report be prepared to present the results of our performance audit of the Department of Revenue’s administration of the ad valorem tax laws as described in Section 195.096, Florida Statutes.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a letter dated August 28, 2009, the Executive Director of the Department of Revenue provided a response to our preliminary and tentative findings. The letter is included in the report as Exhibit A.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



Executive Director
Lisa Echeverri

Child Support Enforcement Director
Ann Coffin

General Tax Administration Director
Jim Evers

Property Tax Oversight Director
James McAdams

Information Services Director
Tony Powell

August 28, 2009

Mr. David W. Martin, CPA
Auditor General
Office of the Auditor General
401 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

In accordance with the provisions of subsection 11.45(4)(d), Florida Statutes, the Department provides this response to the preliminary and tentative report, dated July 30, 2009, on the Auditor General's operational audit of the Department's Administration of Ad Valorem Tax Program (Property Tax Oversight Program or PTO).

Since 2005 the Department has undertaken an extensive reengineering of its real property assessment roll oversight process. This ongoing effort has resulted in substantial improvements in the Department's efficiency in the evaluation of accuracy and uniformity of assessment rolls. The Department appreciates the acknowledgement in the Auditor General's report of a number of improvements, including the elimination of five findings from the last report (No. 2007-037).

Most of the recommendations in the Auditor General's current report involve the conduct and use of ratio studies. While the Department makes continual efforts to enhance its studies, in many cases its potential actions in response to the Auditor General's recommendations may be constrained by resources or practical limitations. In recent years, the Department has unsuccessfully requested additional positions through the Legislature. In fact, PTO's staff has decreased substantially during this period while responsibilities have consistently increased.

The Department is committed to continuing to improve its assessment roll oversight process and appreciates the Auditor General's efforts to evaluate this process and make recommendations for further improvement. Attached is the Department's general response to the individual recommendations presented in the preliminary and tentative report.

Tallahassee,
Florida
32399-0100
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Mr. David W. Martin, CPA
August 28, 2009
Page 2

If further information is needed, please contact Sharon Doredant, Inspector General, at 487-1037.

Sincerely,



Lisa Echeverri

LE/js

Attachment

**Department's Response to the Preliminary and Tentative Findings
Auditor General's Operational Audit of the
Administration of Ad Valorem Tax Program**

***Finding No. 1:** DOR still has not developed uniform market area guidelines that would establish criteria for the identification of market areas by the county property appraisers.*

***Recommendation:** Since our report No. 13062, issued in October 1997, we have reported that the Department of Revenue (DOR) had not complied with Section 193.114(2), Florida Statutes, which required DOR to promulgate regulations that include market area codes established according to DOR guidelines. Effective July 1, 2008, Chapter 2008-173, Laws of Florida, removed the requirement that DOR promulgate regulations; however, DOR is still required to provide for market area code guidelines pursuant to Section 193.114(2)(l), Florida Statutes (2008). The concept of market area guidelines involves identifying market areas, which are geographical real property groups, based on statutory real property classes within each county. The establishment of the market areas would also facilitate the creation of market area codes, the function of which is to identify the real property groups that have been geographically stratified into market areas based on the statutory classes. The establishment of market area codes will enhance DOR's ability to evaluate market data, facilitate more representative samples for its in-depth reviews, and improve its analyses of tax rolls. Our current review disclosed that the Department had not established the required guidelines. In response to our inquiry, Department personnel stated that the guidelines should be established by September 2009.*

Response: Agree

To complete these guidelines, the Department plans to produce and publish another draft, allow a period for public comment, produce a final version of the guidelines, and post this final version to the Department's website by September 30, 2009. These guidelines will satisfy the requirements of section 193.114(2), Florida Statutes.

***Finding No. 2:** Although the DOR's Field Manual has references to the Uniform Standards for Professional Appraisal Practice (USPAP), and DOR and other State agencies require compliance with USPAP by contracted appraisers, compliance with USPAP is not mandated for DOR appraisers.*

***Recommendation:** DOR should consider the adoption of USPAP standards as a mandatory requirement rather than a nonbinding guideline.*

Response: Agree

The Attorney General has opined in AGO 96-31 that, based on an exemption prescribed in section 475.612(6), F.S., government appraisers are not subject to the requirements of part II of Chapter 475, F.S. There are no legal requirements for department employees to comply with any external professional standards. As identified in the *Real Property Field Manual*, the Department has clearly defined expectations for work completed by its appraisal staff in accordance with Florida law. Where appropriate and consistent with Florida law, this manual contains numerous references to external professional standards including the Appraisal

Foundation (of which USPAP is a publication), the Appraisal Institute and the International Association of Assessing Officers. However, due to resource constraints, the Department is not in the position to mandate implementation of external standards which are not required. We will continue to move towards implementation of USPAP as resources permit.

***Finding No. 3:** DOR has not fully implemented the International Association of Assessing Officers statistical standards concerning the COD applicable to in-depth studies.*

***Recommendation:** DOR should fully implement the IAAO statistical standards relative to the COD or document the reasons why this cannot be accomplished.*

Response: Agree

The Department will fully implement the IAAO statistical standards (guides) relative to the COD. However, it should be pointed out that in its discussion of ratio study performance standards indicating inadequate quality regarding Coefficient of Dispersion (COD) parameters for property types, *IAAO Standard on Ratio Studies* (2007) states, "These types of property are provided for guidance only and may not represent jurisdictional requirements."

CODs that fall outside the guides provided by the IAAO are scrutinized by the Department in the post-audit review process to determine if assessment uniformity problems exist. The results of this analysis dictate the Department's administrative treatment. The Department will now consider all CODs that fall outside the IAAO's guides in this process. This change will be implemented for the 2010 Tax Roll Approval process (July 2010).

***Finding No. 4:** Problems with DOR's sampling plan caused some in-depth studies to have an inadequate number of samples in certain strata, and the lack of samples made it difficult for DOR to accurately calculate statistical measures for those strata and the overall level of assessment for those counties.*

***Recommendation:** DOR should continue to improve its sampling procedures to acquire the desired number of samples per value group to meet minimum sample sizes. Also, to achieve the targeted confidence interval or margin of error objectives, every value group must contain an adequate number of sample items, using sales, appraisals, or a combination of both. Also, if the exception parcels are separated from the sample population, these parcels should be routinely appraised or, at a minimum, a procedural audit should be completed to determine if the appraisal records are accurate as to the property descriptions and that the value is reasonable.*

Response: Agree

The Department's current sampling process specifically comports to the *IAAO Standard on Ratio Studies* (2007). The Department has always recognized the importance of this issue. When sampling objectives are not met, the Department reviews the reasons and makes every effort to avoid recurrence of those factors within its control. The Department will continue its efforts to improve sample representativeness and achieve desired sample sizes, within existing resources and time constraints.

In consideration of sample size deficiencies, the Department is currently implementing a time-trended sale ratio study that would afford the opportunity to use more sales (observations) in the samples. This strategy was piloted as part of the 2009 Tax Roll Approval process and is planned for implementation for the 2010 Tax Roll Approval process (July 2010). Successful implementation of this strategy should yield required/targeted sample sizes.

Exception parcels are appraised as part of the procedural review on a routine basis when funds are allocated and/or internal resources are available to the Department. As indicated by the Auditor General, in fiscal years 2006-07 and 2007-08, 7 of the 13 exception properties were appraised. The six remaining exception properties were not appraised for reasons beyond the Department's control (denied access to the property, property subject to litigation, etc.). The Department will continue this practice regarding exception properties as funding permits.

***Finding No. 5:** The methods used by DOR to evaluate the representativeness of the samples in its sales qualification studies could be improved to ensure independent and accurate results.*

***Recommendation:** Considering the high percentage of residential sales sampled and the relatively small sample size in the statutory sales qualification studies, DOR should enhance the study by breaking down the sampling of sales by strata, or between residential and non-residential sales, in order to provide better representation among different property types, while maintaining a statistically reliable number of samples for each part of the study. DOR should also ensure that its appraisers obtain hard copy documentation supporting any DOR changes made.*

Response: Agree

The Department will stratify sales into residential and non-residential categories and randomly draw a statistically reliable number of samples from these two groups. This change will be implemented for the 2010 Tax Roll Approval process (April 2010).

The Department has already enhanced its procedures to ensure that its appraisers obtain hard copy documentation supporting any Department changes made and will continue this practice. Hard copy documentation is checked and digital copies are maintained for each sample changed by the Department.

***Finding No. 6:** Appraisal reports and related DOR records were not always adequate to ensure that value estimates for subject properties were reliable and reasonably supported. As a result, to the extent the assessment levels published by DOR for the counties included in our review were based upon appraisal ratio studies, such assessment levels may not be accurate. Additionally, a more thorough verification of the counties' appraisal sample property characteristics is needed.*

***Recommendation:** DOR should assure that generally accepted appraisal standards and techniques, and its policies and procedures, are properly applied and appropriately documented to clearly evidence the accuracy and credibility of all value estimates. DOR should also conduct a more thorough verification of county property description characteristics.*

Response: Agree except as noted

The Department agrees it should comply, consistent with Florida law, with generally accepted appraisal practices and ensure policies and procedures are appropriately applied and documented. While the Department does not agree with all of the exceptions cited in the report under this finding, the exceptions found do not materially impact the overall county levels of assessment published.

Concerning the verification of county property description characteristics, the Real Property Field Manual will be updated with specific requirements to ensure our appraisers conduct a thorough verification of the Property Appraisers' physical data characteristics. Consistent with the current practice, the work product will then undergo a quality review by department staff to evaluate whether these standards are met. This change to the Department's process will be implemented for the 2010 Tax Roll Approval process (July 2010).

Finding No. 7: DOR did not ensure that property descriptions by county property appraisers were adequate for changes made so that appropriate changes in the population could be verified. Also, we found no evidence to support verification by DOR appraisers that affected populations identified by county property appraisers were complete. Finally, we noted instances in which DOR changed its appraisals based on "superior" sales data provided by the county property appraisers; however, it was not obvious to us why the property appraisers' sales were considered superior and there was no explanation or documentation in DOR's records to support the supposed superiority.

Recommendation: DOR should take the necessary action to ensure that population descriptions provided by county property appraisers are adequate to ensure that changes made during the county review process are appropriately made to the applicable populations within the tax rolls. DOR should also document verification that the affected populations identified by county property appraisers are complete. Finally, DOR should document all changes made by the DOR appraiser at county review and explain instances in which the county property appraiser had "superior" data.

Response: Agree except as noted

The Department appreciates the audit team's observations; we believe that recent enhancements will address the issue. The mass update process has undergone significant reengineering including an external web site for the Property Appraisers to upload their changes. This site is also used to electronically identify all parcels and verify that agreed changes have occurred. Finally, the reasons for change at county review have been refined, with additional codes added for improved documentation.

The Department will pursue requiring more specific information regarding the definition of populations from Property Appraisers to ensure they are adequate and complete. This will be implemented for the 2010 Tax Roll Approval process (July 2010).

Finding No. 8: DOR's policy of allowing 15 percent across-the-board adjustment for the 8th criterion (net proceeds of sale after deduction of fees and costs) has no documented basis, and

an incorrect adjustment could have significant fiscal impact on school funding and local government revenues.

Recommendation: DOR should collect and analyze pertinent market data, which would accurately quantify the factors to be considered in developing 8th criterion adjustments.

Department's Response: Agree except as noted

Rule 12D.8.002(4), F.A.C., specifies that if any reported percentage adjustment exceeds 15 percent, then the Property Appraiser is required to submit complete, clear, and accurate documentation supporting these adjustments to the Department. As provided by Florida law, consideration of the net proceeds of sale must be made by the Property Appraiser, as with all other factors in section 193.011, F.S. Thus, Property Appraisers have the responsibility of collecting and analyzing information necessary to determine any appropriate adjustments for the 8th criterion.

The Department will evaluate its ability to periodically review the documentation maintained by Property Appraisers to support their adjustments for the 8th criterion considering the Department's available resources, funding, and legislative authorization.