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Progress Report



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Department of Revenue Needs to Further Improve Oversight of Property Appraisers

at a glance

The Property Tax Administration Program has taken steps to improve both its oversight of local taxing authorities and its processing of tax refund requests.

Although the program improved oversight of real property, the validity and reliability of the ratio studies of county property appraisers' assessments have yet to be determined.

The program should continue with its efforts to enhance oversight of tangible personal property, with the goal of conducting procedural audits of county property appraisers' activities.

Purpose

In accordance with state law, this progress report informs the Legislature of actions taken by the Department of Revenue in response to our 1997 report.^{1, 2}

¹ Section 11.45(7)(f), F.S.

² *Program Evaluation and Justification Review of the Property Tax Administration Program Administered by the Department of Revenue*, Report No. 96-81, April 1997.

Background

State law authorizes counties, school districts, municipalities, and some special districts to levy ad valorem taxes on real and tangible personal property. To ensure that taxpayers are treated equitably within and among counties, the Florida Constitution and state law require that county property appraisers assess property uniformly and at just value. This requirement also helps ensure the equitable distribution of state funds among school districts through the Florida Educational Finance Program.

The Department of Revenue's Property Tax Administration Program provides state supervision of county property appraisers' activities to ensure that all property is placed on county tax rolls and is uniformly assessed at just value. The program's oversight extends to both real property and tangible personal property by

- analyzing county tax rolls to ensure the just and uniform valuation of property within and among counties;
- ensuring compliance with the statutory truth-in-millage provisions, which require taxing authorities to disclose how the millage, tax, and budget are calculated and why tax increases are being sought; and

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- approving ad valorem tax refunds involving changes to the assessed value of property and all tax certificate corrections or cancellations.

The program was appropriated 133 positions and \$9.6 million for Fiscal Year 1999-2000.

Prior Findings ---

In our 1997 justification review, we found that the program had improved its overall performance, but that opportunities for further improvements existed in four areas.

Oversight of Real Property Assessments

Despite performance improvements, some aspects of the program's oversight efforts needed improvement. Its ratio studies, which compare property assessors' assessed property values to program staff estimates of the just property value, did not conform to national standards. In addition, the Transfer of Interest in Real Property Form (DR219), which was developed to provide the program with information for its analyses of tax rolls, could not be effectively used by staff to obtain timely, accurate, and complete information about real property sales.

To improve the ability of staff to detect problems with real property assessments, we recommended that the program

- use the test recommended by the International Association of Assessing Officers in conducting its sales ratio studies to ensure that its samples of sold properties are representative of all properties in a county;
- use the International Association of Assessing Officers' recommended statistical standards to measure the uniformity of property assessments to prevent masking equity problems within and among counties;
- modify the procedural audit process (which assesses whether property appraisals are performed in an appropriate manner) to analyze each class of property that was not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected;

- monitor the types of errors made by field staff and detected by its quality control process and use this information to help reduce future field staff errors;
- develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value; and apply the actual cost-of-sale factor used by property appraisers during its ratio studies to ensure that the program's estimates of property appraiser performance are accurate; and
- contract with a private entity for the purchase of property sales information or for entering DR219 data into a database to improve the accuracy, completeness, and timely receipt of this information.

Oversight of Tangible Personal Property

The program had not been effective in ensuring that county property appraisers assess tangible personal property uniformly at just value, as required by the state constitution and law. Rather, the program had focused its efforts on providing aid and assistance to property appraisers. However, the program could not demonstrate the effectiveness or impact of its training and other aid and assistance activities.

To improve the oversight of tangible personal property, we recommended that the program

- conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value (procedural audits assess whether property appraisals are performed in an appropriate manner) and
- develop and disseminate materials to property appraisers about program aid and assistance services to provide the program with opportunities to help improve county tangible personal property assessment practices.

Oversight of Taxing Authorities

Although the program had improved its oversight of taxing authority compliance with the truth-in-millage requirements, during 1995 and 1996 fewer taxing authorities had complied

with these requirements on their initial submission of truth-in-millage records. Program staff had attributed this decline to several factors, including a 1996 legislative change to the truth-in-millage provisions. Although program staff had conducted training in the spring and summer of 1996, the focus of the training had been on reducing the types of errors detected during the prior budget cycle and did not address the new legislation.

We recommended that the program provide training that emphasized the 1996 statutory changes to the truth-in-millage provisions to improve taxing authority compliance.

Program Refunds Approval Process

The program's performance in processing ad valorem tax refunds and tax certificate corrections or cancellations had declined over the prior two years, from 92% in Fiscal Year 1993-94 to 64% in Fiscal Year 1995-96. We recommended that program staff monitor its review and approval of ad valorem tax refund requests to ensure that it processed these requests in a timely manner.

Current Status _____

The department has taken action to implement our recommendations related to oversight of taxing authorities and processing tax refund requests, as well as some recommendations related to its oversight of real property. However, the program needs to take further action to address several issues relative to its oversight of real and tangible personal property.

Action Taken

Oversight of Real Property Assessments

The program has improved its process for conducting procedural audits of properties not analyzed with ratio studies. Procedural audits focus on how property appraisals are performed. Program staff have developed and implemented an enhanced process for ensuring that appraisal procedures used by county property appraisers comply with professional standards and guidelines. This process is an improvement over the prior methodology and responds to our recommendations.

The department has responded to our recommendations on the cost-of-sale factor. The cost-of-sale factor is a deduction from market value of brokerage fees and other costs property owners incur in selling the property. Program staff have offered assistance to the county property appraisers on applying the cost-of-sale reduction to ensure consistent and equitable treatment of taxpayers. The program has also developed the capability to use the actual cost-of-sale factor applied by a county, ensuring the program's cost-of-sale adjustment is the same used by the property appraiser.

Oversight of Taxing Authorities

The Property Tax Administration Program is conducting truth-in-millage requirements training to improve taxing authority compliance with the truth-in-millage requirements. The program has continued to provide training workshops to the local taxing authorities statewide during the last three years. According to program staff and our review of training materials, the workshops have focused on basic information and practical assistance with truth-in-millage requirements compliance and new legislation. The workshops have also been offered to any taxing authority with compliance problems in prior years.

Program Refunds Approval Process

Program staff are monitoring refund requests to ensure that they process these requests in a timelier manner. The program maintains a computer database system to keep track of all applications for refund or tax sale certificate cancellation or correction. The program uses the system to monitor the status of all applications from receipt until a final action is determined and returned to the county. The percentage of refunds processed within 30 days has increased from 64% in Fiscal Year 1995-96 to 98% in Fiscal Year 1998-99.

Further Action Needed

Oversight of Real Property Assessments

We were unable to conclude whether the program has resolved the issue of validity and reliability in the ratio studies used to evaluate county property appraisers' assessment of property values. The program has taken some

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steps to improve its oversight methods by developing a new ratio study methodology. The Office of the Auditor General is currently conducting its statutorily required in-depth review of the department's administration of ad valorem tax laws, which will include an assessment of the validity of the data and computer analysis supporting the new methodology.³

Although the department has not adopted the International Association of Assessing Officers statistical standards to measure the uniformity of property assessments, the program's ratio studies have found that 82% of county property appraisers are within these standards. However, because the validity of the department's ratio studies is being evaluated by the Auditor General's in-depth review, a final determination cannot yet be made as to whether there is still a need for the department to adopt these standards.

The program has also improved its field staff quality assurance process. Program management has designed and piloted a new field appraiser quality control system that monitors the types of errors made by field staff to determine if training or guidelines should be modified or improved. Program management has started using this information in one of the regional offices to help reduce future field staff errors (e.g., revising the program ratio study guidelines and training) and improve the accuracy of ratio study data.⁴

³ Section 195.096(7), *F.S.*, requires the Auditor General to conduct a performance audit of the administration of ad valorem tax laws by the Department of Revenue on a triennial basis. Auditor General staff expect the review of the department's 1998 and 1999 activities to be published by June 30, 2000.

⁴ The department plans revision to the quality control system and implementation statewide after full installation of the new ratio study methodology.

The department has taken action that should improve the accuracy, completeness, and timely receipt of Transfer of Interest in Real Property Form (DR219) information. Although the department has continued to purchase some information on property sales in northwest Florida counties from a private vendor, there are no available vendors for this type of service in other regions in Florida. The department is developing a temporary contract for data input of the DR219 information, but has made technological advances that are expected to replace the need for permanent outsourcing.

Oversight of Tangible Personal Property

The department has altered its methods relating to the oversight of tangible personal property. Although the department is not yet conducting procedural audits of county property appraisers' tangible personal property tax assessment methodology, program staff have improved their oversight efforts and are making progress in improving property appraiser tangible personal property assessment practices. The department has issued Tangible Personal Property Tax Appraisal Guidelines, which are standard measures of value and are available as a research tool for the county property appraisers.

Program staff also have developed and are providing training and assistance activities that are enabling county property appraisers to conduct tangible personal property audits of businesses that were not previously being performed. In addition, new computer capabilities are enabling program staff to perform follow-up activities.

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Project supervised by Debbie Gilreath (850/487-9278)

Project conducted by Brian Betters (850/487-9268)