



AUDITOR GENERAL
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DEPARTMENT OF REVENUE
ADMINISTRATION OF AD VALOREM TAX PROGRAM
PERFORMANCE AUDIT

For 2004 and 2005 Calendar Years

**DEPARTMENT OF REVENUE
ADMINISTRATION OF AD VALOREM TAX PROGRAM**

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SCOPE

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 2004 and 2005 calendar years, DOR conducted in-depth reviews of the assessment rolls of 34 and 33 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 Walton, Pinellas, Duval, and Collier.

This performance audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

SUMMARY OF FINDINGS

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: The DOR procedures manual for the review of county assessment rolls for the 2004 and 2005 in-depth studies was incomplete.

Finding No. 3: The International Association of Assessing Officers statistical standards were not fully implemented during the audit period.

Finding No. 4: Problems with the DOR sampling plan caused some in-depth studies to have an inadequate number of samples in certain strata. 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 AVQUAL study would be more representative if the samples were stratified to reflect other processes of the in-depth study. DOR's policy relating to decision making in the AVQUAL process should be revised to help insure independent and accurate results.

Finding No. 6: Some statistical tests indicate that DOR samples may not have been representative of the county tax rolls.

Finding No. 7: Appraisal reports and related DOR records were not always adequate to ensure that value estimates for subject properties were reliable and credible. 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 supportable.

Finding No. 8: DOR does not appear to be adequately addressing property description errors in county property data. The DOR policy relating to reporting material mistakes of fact appears to conflict with the definition in the Florida Statutes. DOR's policy regarding material mistake of fact (MMF) should be revised to provide that any and all MMF relating to physical characteristics of property, if included in the assessment of the property, will result in a deviation or change in the assessed value of the property, consistent with Section 193.1142(2)(c), Florida Statutes.

Finding No. 9: The DOR's new policy relating to property appraiser "mass updates" during county review did not provide assurance that appropriate changes were made to the county tax rolls.

Finding No. 10: It appears that some in-depth study appraisals were not reviewed in accordance with DOR's guidelines.

Finding No. 11: Contracting for outside appraisal services did not result in improvement in the numbers and quality of DOR appraisals.

Finding No. 12: DOR's policy of allowing 15 percent across the board adjustment for the 8th (net proceeds of sale after deduction of fees and costs) criterion has no documented basis. An incorrect adjustment could have a significant fiscal impact on school funding and local government revenues.

FINDINGS AND RECOMMENDATIONS

Instructions for County Property Appraisers and Property Tax Administration Staff
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Finding No. 1: Uniform Market Area Guidelines

In our report No. 2004-177, we reported that the Department of Revenue (DOR) had not complied with Section 193.114(2), Florida Statutes, which requires the DOR to promulgate regulations which, effective January 1, 1996, must include market area codes established according to DOR guidelines. This finding had also been reported in report No. 13062 issued in October 1997, and report No. 01-003 issued in August 2000. During 2001 and 2002, DOR held public workshops to take input from interested parties. The first draft of the market area guidelines was dated June 9, 2003, and subsequent public workshops were held. According to DOR's December 31, 2005, corrective action plan, seven drafts of the document have been prepared and workshops were held after each revision. The most recent workshops were held in September 2005. As a result of the workshops, an eighth draft of the guidelines is being prepared with a projected completion date in the summer of 2006 and a revised possible adoption by the Florida Cabinet by the end of 2006. Even if this proposed schedule is achieved, the earliest implementation date would be 2007, eleven years after the effective date prescribed in law.

In DOR's response to Finding No. 3 in report No. 2004-177, the DOR Executive Director stated "After the adoption and implementation of the Florida Uniform Market Area Guidelines, the resulting market area codes reported to the Department on assessment rolls will have a substantial positive impact on the Department's ability to conduct statistical and analytical review, evaluate assessment uniformity, perform diagnostic analyses on assessment rolls, and provide aid and assistance to counties". Given the importance of the additional statistical information which will be available to DOR upon implementation of the uniform market areas, we again recommend that DOR comply with the statutory requirement that uniform market area guidelines be adopted and implemented as soon as possible.

Recommendation: We again recommend that DOR complete and implement the uniform market area guidelines, as soon as possible, to improve DOR's ability to evaluate market data and more closely track the IAAO statistical standards (See Finding No. 3); to facilitate the establishment of representative samples for use in DOR's sales ratio studies; and to improve DOR's ability to analyze tax rolls.

Finding No. 2: Procedures Manual for the Review of County Assessment Rolls

In our report No. 2004-177, we reported that DOR had not prepared uniform procedures for its reviews of county assessment rolls for the in-depth studies. The finding was also reported in our report Nos. 12408, 13062, and 01-003. As a result of the prior audit findings, DOR revised their Real Property In-Depth Study Guidelines for the 2004-2005 in-depth studies. In addition, DOR's December 31, 2005, corrective action plan indicates that DOR is in the later stages of reviewing and producing a major rewrite of the manual. Our review of the manual in use for the 2004-2005 in-depth studies indicated some improvement over previous manuals; however, it remains incomplete. For example, many of the appraisal techniques and definitions are abbreviated and lack sufficient detail to be helpful to the staff, and the manual still lacks a complete description of the in-depth review process. Although it would not be practical to include lengthy discussions of appraisal methodology in the manual, other enhancements could include footnote references to appraisal literature which could be helpful to

the field staff in performing their appraisal assignments. Also, the Florida Real Property Appraisal Guidelines adopted by the Florida Cabinet on November 26, 2002, contain useful reference information as well as some applicable appraisal discussions which could be incorporated into the procedures manual.

Recommendation: To provide assurance that employees clearly understand DOR's appraisal standards and procedures to follow in conducting the in-depth studies, DOR's procedures manual should continue to be enhanced to provide complete and detail steps in the in-depth study process and provide each employee involved in the in-depth studies a clear understanding of the entire process. This procedures manual should be a self-contained reference document and a detail source document for training employees and should clearly establish appraisal standards by which the staff appraisers' work product is evaluated. Incorporating applicable sections of the Florida Real Property Appraisal Guidelines into the manual could provide applicable reference information.

Ratio Studies

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 (e.g., single family residential, vacant lots, improved commercial and industrial property) and requires that DOR publish the results of its in-depth reviews for each county tax roll as a whole and independently for each class of property. The in-depth reviews rely upon sales and appraisal ratio studies. DOR's published standards for tax roll approval required an individual stratum and an overall level of assessment of 90 percent or greater. 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 corrections, a notice of defect (defect letter) is issued. A response to the notice is required within 15 days and, if the situation is unresolved, an administrative order is issued with specificity concerning corrective actions to be completed prior to approval of the subsequent year's assessment roll.

For the in-depth reviews of the 2004 and 2005 assessment rolls, DOR used three different methodologies consisting of the all sales methodology (AV 210), the verified sales ratio methodology (a blend of sales and appraisals) and the traditional all appraisal methodology. Based on the amount of sales data available, two or three of the methodologies were sometimes utilized in the same in-depth study. The all sales methodology was utilized in those counties with adequate sales data. In those strata with limited sales activity, the verified sales ratio methodology was employed. In those strata with no sales or very limited sales activity, the traditional all appraisal methodology was employed.

The following table summarizes the number of sales and appraisal sample items by stratum Statewide:

Stratum	2004				2005			
	AV-210 Sales	Appraisals	Verified Sales	Total	AV-210 Sales	Appraisals	Verified Sales	Total
1	208,885	266*	67	209,218	172,216	216*/128	51	172,611
2	1,766	145	64	1,975	2,738	105	25	2,868
3	0	577	0	577	0	613	0	613
4	29,921	246*/38	26	30,231	13,358	156*/164	53	13,731
5	214	71	15	300	0	31*/37	0	68
6	2,071	948	107	3,126	1,840	1017	0	2,857
Total	242,857	2,291	279	245,427	190,152	2,467	129	192,748

**Contract Appraisals (For the 2004 in-depth studies, 512 of the total 2,291 non-agricultural appraisals were contracted to outside appraisers, and for the 2005 in-depth studies, 403 of the total 2,467 non-agricultural appraisals were contracted to outside appraisers)*

When the sales ratio and appraisal samples are completed and merged, the field work portion of the study is complete. Each county property appraiser is afforded an opportunity to review with DOR staff each verified sale and appraisal sample item utilized in the study. Because of the volume of sales utilized in the all sales methodology, the sale sample items are not reviewed individually. After the review, a summary report is produced indicating the results of the in-depth study, which are 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: IAAO Statistical Standards

In our report No. 2004-177, we recommended that DOR reconsider its statistical standards in terms of those standards recommended by the International Association of Assessing Officers (IAAO) for evaluating the adequacy of county tax rolls. The IAAO 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 levels for residential properties: 10 for newer, more homogeneous, areas; 15 for older heterogeneous areas; and 20 for rural residential and seasonal properties. A low COD indicates that county appraisals within the area or class of property are uniform, whereas a high COD indicates that properties are being appraised at inconsistent percentages of market value. DOR used 15 for all residential properties during the audit period and plans to continue its use.

The IAAO recommends the range for Price Related Differential (PRD), a statistic for measuring the assessment-level relationship between high-value and low-value properties, for all property classes be .98 to 1.03. A PRD greater than 1.00 suggests that high-value parcels are under-appraised, whereas a PRD less than 1.00 suggests that high-value parcels are relatively over-appraised. According to DOR, the IAAO statistical standards were fully implemented for the 2004 and 2005 tax rolls for all property classes except stratum 6 (commercial) which remained at .95 to 1.05 level because of the diversity of property types included in that stratum. DOR's

December 31, 2005, corrective action plan stated "the IAAO Standard on Ratio Studies (1999) is under revision, and the Department's conclusions and implementation of any changes to current practices in this area will not be finalized until the revised Standard has been published." However, since this IAAO standard revision process has been ongoing for several years, DOR should proceed to implement the current standards. In the event that the standards are revised in the future, DOR can then adjust their standards accordingly.

Recommendation: DOR should fully implement the IAAO statistical standards. As indicated in Finding No. 1, procedures should be incorporated in the market area guidelines to enable DOR to more closely track these standards.

Follow-up to Management Response

The Executive Director, in his response to this finding, indicated that the Department is in compliance with Florida law and uses the IAAO standards as advisory rather than as mandatory. As also referenced by the Executive Director, IAAO states that ratio studies reduce uncertainty about appraisal accuracy by providing an objective basis for evaluating appraisal level and uniformity. Our finding does not indicate that the Department has not complied with Florida law, but rather that the Department has not fully implemented the IAAO standards that are intended to provide a higher level of assurance regarding the accuracy and uniformity of appraisals. The Executive Director further noted that there are major practical and technical difficulties with fully implementing the IAAO standards which include inefficiencies in real property markets, the imperfections of conducting ratio studies, the development of criteria for segregating counties into three categories, and the development of computer programs for identifying which of the three groups a county should be placed. We recognize that there could be difficulties encountered in moving toward full implementation of the IAAO standards, however, the inefficiencies in real property markets and the imperfections of conducting ratio studies, referred to by the Executive Director, are factors that the Department addresses in all aspects of conducting the required ratio studies. One purpose of implementing IAAO standards is to address those factors in a systematic and generally accepted manner. The Department currently has the capability of segregating properties in a variety of ways for statistical analysis purposes. We are unaware of any need to segregate counties into categories for the purpose of complying with the standards. While the parameters for categorization are a matter of judgment on the part of DOR, it appears that the ability to develop a categorization of parcels for the application of IAAO COD standards exists. The Department should strive to continue its efforts to implement these standards or document the reasons why they cannot be implemented.

The Executive Director also indicated that we have not provided the Department any information on examples of implementation of the three-level standard for COD recommended by IAAO or any guidance on appropriate criteria for such implementation. The Department is charged with the responsibility for conducting ratio studies to assure the uniformity of assessments and, as needed, should consider consulting with IAAO regarding implementation of IAAO standards.

Representativeness in Ratio Studies
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Section 195.096(2)(c), Florida Statutes (2004), requires that DOR use a representative or statistically reliable sample of properties in tests of each classification, stratum, or roll made the subject of a ratio study published by DOR. To the greatest extent practicable, DOR is required to study assessment roll strata by value groups or market areas for each classification, subclassification, or stratum, to assure the representativeness of ratio study samples. Effective July 1, 2005, Section 195.096(2)(c), Florida Statutes, was revised to require that in conducting assessment ratio studies, DOR "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."

DOR's sampling procedure was improved, from a representativeness standpoint, by stratifying the population by property class (stratum) and value groups. However, certain aspects of DOR's sampling methodology may have introduced some bias into the in-depth study results for the audit period. Steps in the in-depth study process where biases can be introduced, resulting in sample non-representativeness, are discussed in the subsequent findings as indicated:

- Inadequate sample sizes that limit the ability to improve sample representativeness and to provide more accurate statistical measurement through value group sampling. (Finding No. 4)
- Sales qualification tests which are not objectively performed and can result in good market reflective sales being routinely miscoded and thereby being eliminated from consideration in the sales ratio studies. (See Finding No. 5)
- Sales or appraisal chasing by the county property appraiser, which may be detected by statistical analysis such as the alternate ratio or frequency of distribution or percent change tests. (See Finding No. 6)
- DOR staff not using proper techniques in conducting appraisals or not being objective in arriving at the appraised values. (See Finding No. 7)
- Errors in property descriptions, resulting in incomplete or inaccurate assessment data. (Finding No. 8)
- In-depth study samples disclosed to the county property appraiser prior to submission of tax roll for review and mass updates not being property monitored. (See Finding No. 9)
- Non-representative value changes to in-depth study samples by the county property appraiser or DOR staff during county review. (See Finding No. 9)

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

Section 195.096, Florida Statutes, requires DOR to study assessment roll strata by value groups or market areas for each classification, subclassification, or stratum to assure the representativeness of ratio study samples. DOR has adopted a value group sampling plan to provide for improved sample representativeness and more accurate statistical measures to evaluate tax rolls. This method also minimizes the impact of price-related inequities when calculating the level of assessment. In our report No. 2004-177, we reported that the DOR encountered problems implementing the new sampling plan which resulted in some value groups lacking adequate sample items. While there has been improvement, some of the same problems were found in this audit, as follows:

- A minimal sample size of two sales for each value group was not always achieved. For the 34 counties studied in 2004 and the 33 counties studied in 2005, there were 7 and 8 value groups in 2004 and 2005, respectively, which had no 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 16 value groups. Fifteen of the 16 value groups which did not have adequate sample items were in the value groups with the highest valued properties. The creditability of the resulting statistical results for the 2004 and 2005 in-depth studies was diminished because these high value groups were not represented. 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. Appraisal samples are drawn from the prior year tax roll to provide DOR staff adequate time to complete the in-depth studies prior to submission of the current tax roll. DOR's December 31, 2005,

corrective action plan states that through research of professional references, DOR has identified four potential methods for adjusting sales for any changes in market conditions. DOR's corrective action plan further states that this project has been assigned as a process improvement project to make recommendations prior to the July 2006 roll approval process.

- The 95 percent level of confidence objective, which is required by Section 195.096(2)(f), Florida Statutes, was not achieved, in some instances, during the audit period. DOR records indicate for the 2004 in-depth studies, 3 strata in 3 counties did not achieve the 95 percent level of confidence objective. For the 2005 in-depth studies, 11 strata in 9 counties did not achieve the 95 percent level of confidence objective. The inability to achieve the 95 percent level of confidence required by Section 195.096(2)(f), Florida Statutes, could be attributable, in part, to inadequate sample sizes. Additionally, minimal sample sizes for each value group diminishes the reliability that can be placed on the results. While two sales can be used to measure the amount of variation among ratios within value groups, the margins of error are frequently large, the level of confidence 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 6. However, due to staffing limitations and time constraints, they were not appraised. For the 2004 and 2005 in-depth studies, this stratum was assigned the weighted average of the other value groups within that stratum. The assumption was made that the high value parcels in value group 6 were assessed at the same level as other parcels in the same stratum. There were 7 and 5 "exception" parcels in the 2004 and 2005 in-depth studies, respectively. The Standard on Ratio Studies, published by the International Association of Assessing Officers, states "Because of their high value, these properties cannot be ignored or assumed to be appraised at the statutory or general level in indirect equalization studies. The equalization agency should conduct an appraisal of such properties (the appraisals may be trended for several years) or audit and adjust as necessary the values developed by the local jurisdiction." DOR's December 31, 2005, corrective action plan indicated that DOR submitted a budget request for four additional positions to conduct procedural audits on "exception" parcels as part of the in-depth study process. However, these positions were not funded by the Legislature.

Recommendation: To obtain accurate statistical results from the in-depth studies, all value groups should have adequate representation. DOR should enhance its current sampling procedures to achieve the required number of sample items per value group based on acceptable statistical measures. Whether the sample items are sales or appraisals, each tested category and every value group must contain a sufficient number of sample items to achieve the required or targeted confidence interval or margin of error objectives. Additionally, the current sampling procedures should be revised to include a requirement that samples of sales be supplemented with appraisals when there are not enough sales to meet the required minimum sample size as determined by the applicable statistical formulas. Also, if the "exception" parcels (value group 6) are separated from the sample population, these parcels should be 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: Representativeness of the AVQUAL Study

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 known as the AVQUAL study. To assist the county property appraisers in qualifying sales, a list of characteristics which 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 Dictionary of Real Estate Appraisal, published by the American Institute of Real Estate Appraisers, defines an “arm’s length” transaction as “a transaction between unrelated parties under no duress.”

DOR’s random sample for the AVQUAL 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 the county property appraisers have correctly qualified at least 90 percent of those transactions. Failure to achieve a qualification rate of at least 90 percent may result in a post-audit notification of defect being issued to the county property appraiser. If a notification of defect is issued, procedures in Section 195.097, Florida Statutes, shall be followed.

The AVQUAL 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 results of DOR’s all sales methodology are directly dependent upon the correctness 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.

We reviewed four AVQUAL studies conducted by DOR during the audit period. As also noted in our report No. 2004-177, there continues to be a lack of representation of all property type sales transactions. We noted, as represented on the table below, that residential property sales continue to dominate the AVQUAL study samples. Percentages of residential sales among the four counties in our review ranged from 90.4 percent to 98.2 percent.

County	Collier	Duval	Pinellas	Walton
Percentage of Residential/Vacant Land Other Parcels				
AVQUAL Study	96.6%	90.4%	97.86%	98.2%
Tax Roll	76.5%	85.6%	89.6%	79.2%
Percentage of Non-Residential (All Other) Parcels				
AVQUAL Study	3.4%	9.6%	2.14%	1.8%
Tax Roll	23.5%	14.4%	10.4%	20.8%
Total Samples	88	126	140	115

Our review of the four county studies revealed a propensity to accommodate and validate property appraiser sale qualification data. In three of the four AVQUAL studies, DOR made significant numbers of changes in its sales qualification decisions that resulted in the property appraisers achieving the required 90 percent pass rate.

Study	Initial Rate	Final Rate	Samples	Changed
Collier	82.95%	100.00%	88	15
Duval	81.75%	93.65%	126	15
Pinellas	82.14%	92.86%	140	15
Walton	96.52%	98.26%	115	2

DOR's in-depth study guidelines instruct the 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 guidelines state that the property appraiser's office should be contacted and an appointment made to resolve discrepancies. DOR's sales qualification can be changed after being reconciled with the county's documentation. Based on the number of instances where DOR staff changed their decisions at the meetings with the county property appraisers, DOR's current policy of only screening the deeds to determine whether the sales were qualified does not appear to be adequate. The credibility of the AVQUAL studies would be enhanced if DOR required independent verification of all selected AVQUAL samples prior to the meetings with the county property appraisers rather than depending on the county property appraisers to provide information at the meetings. DOR's staff is provided the AVQUAL sample listings several months before the meetings with the county property appraisers; therefore, staff would have adequate time to complete the verification process prior to the meetings.

At the beginning of the in-depth study, DOR conducts another sales qualification study known as the AV233. For this study, DOR stratifies the sales into the same property classes and value groups utilized in the in-depth studies. The initial phase of the study determines if there are an adequate number of sales in each value group to utilize the AV210 all sales methodology. When there are adequate sales, a stratified sales qualification study (AV233) is conducted. DOR records indicated that 6 value groups in five counties did not achieve the 90 percent qualification rate when the sales were stratified for 2004, and 21 value groups in nine counties did not achieve the 90 percent qualification in 2005. When the AV233 study indicated that a value group did not achieve the 90 percent qualification rate, DOR studied that stratum by the traditional appraisal methodology rather than address the reason the county did not achieve the 90 percent qualification rate. As a result, the accuracy of sales qualifications may not meet the 90 percent rate for all property classes (strata).

DOR has other available sources for sales qualifications. Form DR 219 is a sale disclosure form developed by DOR and used for verification of sales for appraisals prepared by DOR. DOR is currently recording information from the DR219 forms to its new Integrated Appraisal System. The form includes several questions specifically relating to the terms and conditions of the sales which could provide a more reliable method of evaluating the accuracy of the sales qualifications. DOR received 1,606,586 and 1,766,441 valid DR 219 records in 2004 and 2005, respectively. For the 2005 in-depth study, DOR used 88 to 140 randomly selected samples in the AVQUAL tests. If the DR 219 records were utilized for evaluating sale qualifications, the sample size could have been larger and the evaluations would be based on written responses from participants of the sale rather than the DOR's inspection of the deed and discussion of disparities with the county property appraiser. The county

property appraisers are provided copies of all DR 219 forms and, therefore, have the same information available to them.

In its corrective action plan dated December 31, 2005, DOR stated that it has been working with representatives of various property appraiser organizations, the Florida Association of Court Clerks & Comptroller, and closing agents in researching problem issues and potential solutions for improving the quality of the DR 219 data, the cycle time of form processing, and the satisfaction of all stakeholders in the DR 219 process.

Recommendation: Given the increased reliability on sales data provided by the county property appraisers, DOR should enhance the sale qualification study (AVQUAL) by stratifying all available sales, both residential and non-residential, into property classes and value ranges consistent with those strata to be included in the in-depth study process. This would provide better representation of all property types in the study. The independence, credibility, and validity of the qualification study may also be improved by initiating independent verification of all AVQUAL study samples. The qualification study may also be improved by better utilizing the information submitted to DOR by the clerks of courts on Form DR 219.

Follow-up to Management Response

The Executive Director, in his response to this finding, indicated that the Department is complying with relevant provisions of Florida law with respect to the sampling of sales in connection with the AVQUAL study and the qualification or disqualification of sales based on reasons documented and provided by the property appraiser. The Executive Director also indicated that before the Department will accept a sale qualification or disqualification decision within the second category, the county must provide credible, verifiable, and documented evidence that justifies the decision. Such evidence must reflect the research and analysis performed by a county that justifies the decision. Furthermore, the Department's Real Property In-depth Study Guidelines require that "Department appraisers must obtain hard-copy documentation to change the qualification of a subject property." The Executive Director also indicated that the Department believes that our finding presents an inaccurate characterization of the AVQUAL study by stating that the significant numbers of changes in sales qualification decisions that resulted in the property appraisers achieving the required 90 percent pass rate revealed a propensity to accommodate and validate property appraiser sales qualification data. The documentation of Department changes resulting from conferences with the county property appraisers consisted solely of a "Sales Qualification Discrepancy Report" which indicated a reason for each change. However, the report was not supported by "hard-copy" documentation supporting the reason for the change, contrary to the Department's Real Property In-depth Study Guidelines. In the absence of "hard-copy" documentation demonstrating the basis for the change, the Department has no evidence to support the changes made as a result of the conferences with the county property appraisers.

Finding No. 6: Statistical Measures of Representativeness

Section 195.096(2)(c), Florida Statutes (2004), states "In conducting assessment ratio studies, the department must use a representative or statistically reliable sample of properties in tests of each classification, stratum, or roll made the subject of a ratio study published by it." This section was amended by the Legislature effective July 1, 2005, to state: "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 statistically reliability of samples of properties in tests of each classification, stratum, or roll made the subject of a ratio study published by it." Section 195.096(2)(c), Florida Statutes (2004) further states: "For purposes of this section, the department shall rely primarily on an assessment-to-sales ratio study in conducting assessment ratio studies in those classifications of property specified in subsection (3) for which there are adequate market sales."

In our report Nos. 13062, 01-003, and 2004-177, we recommended that DOR evaluate the representativeness of its ratio study samples and include the establishment of specific and objective evaluative criteria in order to demonstrate the basis for verifying such representativeness.

For those strata having a sufficient number of sales, DOR relies exclusively on an assessment-to-sales ratio study, in which only sold properties are considered. Although the assumption of representativeness of the sample is reasonable when random or probability based samples are used, such representativeness cannot be presumed whenever the sample selection is based on the event of a sale. Characteristics of the sold parcels are frequently quite different than those that have not sold. Thus, DOR has a responsibility to demonstrate, within reasonable limits, that their samples are representative and that the conditions of the law are met.

A statistically valid sample consists of a selection of parcels randomly selected from the entire population of parcels, with the sample's variables being independently and accurately measured. There are numerous types of restricted random sampling designs and strategies available to ensure that statistically valid and representative samples are used. However, selecting samples only because they sold is not considered statistically valid in terms of a population that includes both sold and unsold properties, and cannot be proved to represent the target population. Further, because of the non-probability based sample selection, one cannot legitimately make probability based inferences concerning the sales ratio study results.

Our tests for representativeness were based on frequency of distribution of the percent change in the tax roll from the prior year for the sample as compared with that of the target population. We compared the average percent change in the sample with that of the target population. For the 2004 tax roll, 208 (55 percent) of the 379 value groups included in the in-depth study results showed percent change differences of greater than 2 percent, 113 (30 percent) of the value groups indicated a percent change exceeding 5 percent, 35 (9 percent) of the value groups indicated a percent change exceeding 10 percent and 6 (2 percent) of the value groups exceeded 20 percent. For the 2005 tax roll, 234 (64 percent) of the 364 value groups included in the in-depth study results showed percent change differences of greater than 2 percent, 135 (37 percent) of the value groups showed percent change differences exceeding 5 percent, 58 (16 percent) of the value groups exceeded 10 percent and 16 (4 percent) of the value groups exceeded 20 percent. Although DOR has still not established specific and objective criteria to demonstrate the verification of the representativeness of its all sales methodology samples, DOR did issue two advisory letters relating to the 2004 tax rolls and two advisory letters relating to the 2005 tax rolls which recognized significant differences between movement of sold and unsold properties as an "area of concern".

When the sample (sale or appraisal) value changes at a rate which is significantly different from the population, it indicates sales chasing or sample chasing may be occurring. Sales chasing refers to updating assessed values primarily of recently sold properties without updating other similar properties that have not sold recently. Sample chasing refers the updating of assessed values of sample parcels selected by DOR without updating other similarly affected assessed values of parcels throughout the county. Both of these practices can result in samples that are not representative of the assessment roll. The percent change difference between the sample and population that would be considered acceptable is a determination to be made by DOR.

Additionally, we computed an alternate ratio for each value group, stratum and overall for each county. An adjusted or alternate ratio is designed to project the expected ratio for an assessment roll as suggested by the IAAO Standard of Ratio Studies, 1999, as an appropriate measure for representativeness. The alternate ratio assumes that any changes that occurred in the assessed values of the ratio study sample items between the prior

and current years will be consistent with the changes in assessed values that occurred within the entire assessment roll during the same period of time. Non-representativeness is indicated when there is a significant differential between the percent change of the samples as compared to the percent change in the population. These differences were further corroborated by a significant difference in the measured level of assessment and the alternate ratio. There was improvement in the results of the alternate ratio studies during the audit period. For the 2004 tax roll, there were 8 strata which fell below the 90 percent threshold, and for the 2005 tax roll, there were 11 strata which fell below the 90 percent threshold. The examples provided in the table below are not a random sample, but were selected to demonstrate there were instances where the percent changes in the samples differed significantly from the percent changes in the stratum population and the alternate ratio was significantly different from the measured level of assessment, indicating that the samples may not be representative of the population. These differences suggest that further analysis by DOR is needed to assure representativeness.

	County	Stratum	DOR Ratio by Stratum	Alternate Ratio by Stratum	Percent Change in Tax Roll Population	Percent Change in Samples	Percent Change Difference
2004	Gilchrist	1	91.1%	87.90%	4.63	11.54	6.91
	Highlands	4	92.5%	84.66%	7.77	22.74	14.97
	Lee	6	94.1%	85.74%	7.09	15.39	8.30
	Pinellas	6	99.6%	89.43%	6.41	21.33	14.92
	Walton	4	92.6%	86.68%	25.00	35.73	10.72
2005	Alachua	2	90.8%	85.44%	12.33	29.82	17.49
	Escambia	6	92.9%	87.60%	3.02	7.65	4.63
	Monroe	4	95.7%	80.52%	33.23	52.42	19.19
	Wakulla	4	99.2%	87.20%	35.86	67.54	31.68
	Washington	4	102.5%	82.58%	18.58	41.21	22.63

For the 2005 tax roll, DOR issued four advisory letters and one notice of defect letter relating to alternate ratios and/or percent change and recognized these statistical measures may suggest selective reappraisal. The purpose of the advisory letters is to advise the property appraisers of areas of concern noted during the in-depth review process and to recommend certain actions to proactively address these areas.

Recommendation: DOR should establish specific and objective evaluative criteria to demonstrate the verification of the representativeness of its all sales methodology samples, including criteria for comparing percent changes in the tax roll for the prior year for the sample, as compared with the target population, to the percent changes for the current year.

Finding No. 7: Reliance on Appraisal Ratio Studies

DOR utilized appraisal ratio samples in evaluating the reasonableness of value determinations made by county property appraisers in those strata which DOR determined it did not have adequate sales to support sales ratio sampling (AV210 all sales methodology). Thus, appraisals continued to play a significant role in DOR's ratio studies. The appraisals utilized for such strata were significant because they were concentrated in the commercial

and industrial property classifications, which required 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 appraisals. We conducted both office and field reviews of selected appraisals and related documents in accordance with the same generally accepted 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 our report Nos. 13062, 01-003, and 2004-177, our review disclosed that appraisals and related DOR records were not always adequate to ensure that value estimates for subject properties were credible. As a result, to the extent the assessment levels published by DOR for the 2004 assessment rolls for Pinellas and Walton Counties, and the 2005 assessment rolls for Duval and Collier Counties, relied upon appraisal ratio studies, such assessment levels may not be supportable. The deficiencies noted were generally related to the application of the sales comparison and income approaches, as discussed below.

Sales Comparison (Market) Approach

The sales comparison approach involves an estimation of market value of the subject property based on recent sales of comparable properties, with appropriate adjustments for any dissimilarities between the subject and comparable properties. We noted the following concerning the use of the sales comparison approach to value improved properties.

- The Walton County study contained two samples that comprised a single shopping center. Sample 6-51626 contained 242,711 square feet and was valued at \$75.00 per square foot. Sample 6-51638 contained 139,772 square feet and was originally valued at \$75.00 per square foot. However, after county review of the sample with the property appraiser, the unit value of sample 6-51638 was changed to \$65.00 per square foot. There was no data or discussion in the appraisal files supporting the disparity in the unit value estimates of the two samples.
- The method used by DOR's appraisers to arrive at the "indicated subject price" (individual value indication of each sale) was deficient in 41 of 46 samples in Pinellas County, and 52 of 57 samples in Walton County, in the 2004 study, and 17 of 21 samples in Collier County, and 22 of 30 samples in Duval County, in the 2005 study. The "indicated subject price" should reflect all adjustments to the sale. Rather than developing a market oriented size adjustment, in which several sales within the market area are analyzed and compared and a range of contributory values for additional increments in size can be determined, the method utilized consisted of multiplying the unit price of the comparable sale by the difference in size between the comparable sale and the subject property in arriving at the "indicated subject price." This method not only produced an improper size adjustment, but it also did not reflect any adjustments for differences between the comparable sale and the subject property. When there were material size differences between the comparable sale and the subject property, the value was improperly skewed by this method. For example, one sample item in stratum 6 in Duval County listed the following comparable sales: sale #1 sold for \$16,525,000 and had a size adjustment of \$4,174,346 (-25 percent); sale #2 sold for \$12,700,000 and had a size adjustment of \$3,768,654 (-30 percent); and sale #3 sold for \$4,125,000 and was adjusted upward by \$5,726,346 (+139 percent). The unit prices before adjustment were \$34.83, \$25.18 and \$27.86, respectively. The unit prices resulting from the improper method of adjustment was \$26.02, \$17.71, and \$66.75. This incorrect methodology was used in all the market

approaches and land valuations in the cost approaches of all applicable samples we reviewed for all four counties. A similar finding was noted in our report No. 2004-177.

Follow-up to Management Response

The Executive Director, in his response to this finding, stated that we misunderstand the intent and use of the "indicated subject price" data field. He indicated that the data field is not intended to present a quantitative adjustment factor and the appraisal form states that the comparison analysis is being made without recourse to quantitative adjustments. Notwithstanding the statement on the appraisal form, the indicated sales price is the result of a computation based on the relative size of the subject and comparable properties and the sales price of the comparable property and clearly provides a quantitative adjustment to the sales price of the comparable property. Further, the computation used by the DOR appraisers adjusts the sales prices of the comparable sales based on a price per unit calculation and does not consider the impact of size on the per unit value of the subject property.

- In an active and changing market, it is crucial to use the most recent available comparable sales to accurately reflect the current market. In the Pinellas County study, 31 percent of the comparable sales used in the appraisals were sold more than two years prior to the appraisals' effective date of value, and 60 percent of the comparable sales used took place more than one year prior to the effective date of value. Five sales took place in 1999, while the effective date of value in the appraisal reports was January 2004. DOR appraisers made no time adjustments to these comparables.
- In the Pinellas County study, 38 of the 41 appraisal samples in stratum 2 (duplex-multifamily) were appraised using the sales comparison approach. None of these appraisals reflected the number of bedrooms and baths. 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.
- In the Walton County study, we noted errors in the application of tangible personal property (TPP) adjustments in three sales comparison approaches for motel/hotel properties. The IAAO's publication, Property Assessment Valuation, states that adjustments are always applied to sales prices of comparable properties; adjustments are never made to the subject property in the comparison process. Another IAAO publication, Property Appraisal and Assessment Administration, states that the value of personal property must be estimated and subtracted from the sale price to determine the price paid for the real property alone. We noted the following in our review:
 - Sample 6-26729 cited three comparable sales. No TPP adjustment was made to two of the sales. The third sale, reported to be the most comparable, was adjusted by \$6,406 per room for TPP. However, the appraised value was also adjusted by \$5,000 per room for TPP, resulting in TPP being deducted twice.
 - Sample 6-51645 listed four comparable sales. One of the sales was adjusted by \$3,000 per room for TPP. However, there were no adjustments for TPP to the other three sales.
 - In sample 6-56149, no adjustments for TPP were made to any of the three comparable sales. However, the appraised value of the subject property was adjusted by the property appraiser's TPP value estimate (\$10,000 per room). The reviewer questioned this method, but the appraisal was not corrected.

In each case, adjustments for TPP were made which affected the subject property's appraised value. The proper procedure should have been to make an appropriate adjustment for TPP to each comparable sale.

Income Approach

As described in the IAAO publication, Property Assessment Valuation, 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. We noted the following with the application of the income approach used in the in-depth study appraisal samples:

- In the 2004 Pinellas County study, the income approach was used in 14 of 46 samples (30 percent). DOR's appraisers used the Direct Capitalization Method of valuing the subject properties when using the Income Approach. This approach was primarily used on apartment buildings (stratum 2) and commercial properties (stratum 6). We noted incorrect methodology in calculating the market capitalization rates used to support the estimated rate for the subject properties. The calculated capitalization rates for the comparables may have been incorrect due to inconsistent dates of sale price and reported net operating income. DOR's Guidelines state that appraisers should avoid using a sale price from one time period and income data from another period, unless the sale price is first adjusted for the difference in time/market conditions. The capitalization rate should be calculated using income and expense data from the same period as the year of sale. There was no evidence that the appraisers accounted for the inconsistent time periods, which were found in 9 of 13 (69 percent) comparables used to determine estimated capitalization rates for the subject properties.

DOR's Guidelines state, "An analysis of the overall capitalization rate should be included in the report. Reasons supporting the indicated overall capitalization rate used should be clear and concise." The sample appraisals did not include an analysis or discussion of the capitalization rate other than simply a listing of calculated rates for some of the area's comparable sales and a listing of published national and regional rates. There was no indication that the raw data was analyzed and reconciled to a rate applied to each subject.

The deficiencies noted in the Pinellas County appraisals may have resulted in erroneous or poorly supported capitalization rates, leading to less than credible value conclusions.

- In the 2005 Duval County study, the income approach was used in 18 of the 19 samples in stratum 2. In 13 of the samples, the income approach was either relied upon as the value indicator or was correlated into value with another approach. In 11 of the 18 samples, a deduction from the final income approach value indication was made for TPP. However, the amount deducted for TPP was the property appraiser's estimate of the value of the TPP instead of DOR's independently determined TPP value estimates. No deduction for TPP was made to the other 7 samples in the stratum which appears to be inconsistent.

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

Use of Applicable Valuation Methods

The Appraisal Institute's text, The Appraisal of Real Estate, states "in assignments to estimate market value, the ultimate goal of the valuation process is a well-supported value conclusion that reflects all the factors that influence the market value of the property being appraised. To achieve this goal, an appraiser studies a property

from three different viewpoints, which correspond to the three traditional approaches to value” (cost, sales comparison, and income approaches). We analyzed appraisal sample data for all the 2004 and 2005 studies, focusing on strata 2 (multi-family) and 6 (commercial), where more than one approach to value would be necessary and applicable. We noted 2,215 appraisal samples in strata 2 and 6, and found that only 497, or 22.4 percent, had more than one approach applied.

The DOR in-depth study guidelines (guidelines), which incorporate the Uniform Standards of Professional Appraisal Practice (USPAP), state that all approaches to value shall be completed when the approach is considered to be applicable or necessary. The guidelines also state that properties purchased for income producing potential, including motels, typically require the use of the income approach. We noted the following deficiencies concerning the use of the sales comparison approach to value strata 2 and 6 properties:

- In some instances, the use of one approach to the exclusion of others may have violated the intent of DOR guidelines. The most applicable or necessary approach may have been omitted. For example, there were 3 shopping center properties among the samples in the Walton County study. In all 3 appraisals, only the sales comparison approach was used when typically, and at a minimum, the income approach should be used. Additionally, only the sales comparison approach was used in the valuations of 3 hotel and motel property samples. For 8 retail and office properties, only the cost approach was used for the valuations. All of the 14 examples are properties that are typically purchased for their income producing potential, yet the income approach was omitted from the appraisal.
- Our review of 46 appraisal samples (either multi-family or commercial) for the Pinellas County study indicated that for 35 (76 percent), only one appraisal approach was used in each sample. For these single approach appraisals, the sales comparison (market) approach was used in 28 samples, the income approach was used in 5 samples, and the cost approach was used in 2 samples. Two appraisal approaches were used in the other 11 samples; however, no appraisal samples included all three approaches to value. Additionally, our review indicated there were 21 appraisal samples (46 percent) that involved the appraisal of duplex and multifamily units where the income approach was omitted. The use of the income approach in determining a value for these properties appears to be necessary to provide support for a credible value opinion. The appraisers’ reasoning for not using the income approach was a lack of income data; however, given the size of the Pinellas County real estate market, it does not appear reasonable that there would be insufficient data to complete the income approach, particularly in the multifamily stratum
- In the Collier County study only one appraisal approach was performed for 17 (81 percent) of the 21 appraisal samples. All of the appraisal samples were income producing properties, yet only 7 appraisals (33 percent) included the income approach. Eleven appraisals (52 percent) included only the cost approach, although the income or market approach appeared to be necessary to provide a credible value estimate for most of these properties.

Follow-up to Management Response

The Executive Director, in his response to this finding asserted that the Department’s review field manual requires that all approaches to value shall be completed when “applicable and necessary.” We concur that this is the standard cited in the manual; however, the Department has not consistently applied this standard. For example, as indicated in the finding, there were 3 hotel and motel and 8 retail and office appraisal samples in Walton County in which the income approach was omitted. The Real Property In-depth Study Guidelines provide that one of the tests asks: “Is it purchased to collect rents

from tenants? Typically this property would require the completion of the income approach.” A DOR policy memorandum states: “The use of a single approach is not acceptable when there is adequate available data that can produce the additional creditable approach(es) which would lend further support to the value conclusion.” The income approach is clearly applicable and necessary for the appraisal of such units. In this instance, the DOR appraisers not only employed only one approach, but the approach employed was not the approach prescribed by DOR’s own policy memorandum.

The Executive Director further stated that the Department does not agree that more than one approach is always necessary for a credible appraisal. Our finding does not indicate that more than one approach is always necessary for a credible appraisal. The point of our finding is that more than one approach is not being utilized for properties that typically would require more than one approach under the Department’s procedures.

Cost Approach

In the 2004 Pinellas County study, the cost approach was applied to 4 of 46 appraisal samples. Two of the 4 land value estimates (sample Nos. 352049 and 397680) were deficient in that they lacked the narrative analysis/discussion of each comparable land sale, and there was no reconciliation of sales to a final land value. There were also no supporting data sheets or sale information to support the land sales. Furthermore, sample No. 397680 was missing individual adjustments to the sales in the sales comparison, and the value conclusion for the subject property was above the range of values provided by the comparable sales, which were all stated to be inferior to the subject property. Since primary weight in the final reconciliation of values was placed on the cost approach for these two appraisals, the credibility of the final value estimates was negatively impacted by these deficiencies.

The estimated value of extra features were improperly added twice to samples (No. 395790 and 155691), which resulted in overstatements (\$89,840 and \$6,843, respectfully) of overall property value.

Assemblage

Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 1-4(e), states that an appraiser must analyze the effect on value, if any, of the assemblage of the various estates or component parts of a property and refrain from valuing the whole solely by adding together the individual values of the various estates or component parts. Although the value of the whole may be equal to the sum of the separate estates or parts, it may also be greater than or less than the sum of such estates or parts. Therefore, the value of the whole must be tested by reference to appropriate data and supported by an appropriate analysis of such data.

The 2004 Walton County study contained two samples which were recreational vehicle parks with 14 and 16 units, respectively. DOR’s appraisals used comparable sales of single undivided ownership spaces in both valuations. The appraiser simply multiplied the number of spaces in the sample property by a value indication from the sales of single unit spaces. The appraisal reviewer noted problems with this methodology, but the appraisal was not changed. The reviews of the samples stated “might consider a more detailed explanation of subject 16 units versus sales of 1 unit” and “The sales are for undivided interest in a like parcel. Consider verbiage that would lead the reader to think that price per unit of the whole is the same as price per unit of a percentage of the whole”.

Demolition Costs

In Walton County stratum 6, two appraisals included adjustments for the cost of demolition of structures to the final value estimate. However, DOR’s in-depth study guidelines contain a policy memorandum dated April 2, 2004, that gives examples of how to account for demolition costs in the analysis of a comparable sale. There is

no instruction to make an adjustment to an appraised value for demolition costs. Therefore, it appears that adjustments for demolition costs were not appropriate in calculating the final value estimate.

Recommendation: DOR should assure that generally accepted appraisal standards and procedures are properly applied and appropriately documented to clearly evidence the accuracy of all value estimates.

Follow-up to Management Response

The Executive Director, in his response to this finding, referred to our statement that we conducted our reviews of selected appraisals in accordance with the same generally accepted appraisal standards and procedures to which DOR and the property appraisers were required to follow, and indicated that the only standards the Department is required to follow are the requirements of law. The Executive Director referred to standards promulgated by external sources such as the IAAO as voluntary. Our review of selected appraisals was based primarily on the Manual of Instructions for Property Appraisers prepared by DOR, the Real Property In-depth Study Guidelines prepared by DOR for DOR field appraisal staff, and internal policy memoranda that make reference to the standards referred to in the finding. These documents were prepared by DOR in recognition of the fact that Florida law does not provide specific guidance regarding the conduct and review of appraisals.

Finding No. 8: Property Description Errors in County Property Appraiser Data

The International Association of Assessing Officers (IAAO) publication, Property Appraisal and Assessment Administration, states that the primary use of a ratio study is evaluation of mass appraisal performance. It is used to determine whether appraisal performance meets acceptable standards. The precision and reliability of any ratio study depends on the quantity and quality of the sales and appraisals used. Valuation accuracy depends on accurate and consistent data. The IAAO Standard on Ratio Studies states that, in designing a ratio study, the accuracy of the data used in the study should be ensured. Additionally, the findings of a ratio study can only be as accurate as the data used in the study, and no matter what the purpose of the study, the data must be as accurate as possible. The Florida Real Property Appraisal Guidelines adopted by the Florida Cabinet also emphasized this goal, stating “the findings of a ratio study can only be as accurate as the data used in the study.”

We noted that, in some instances, DOR discovered a number of errors in physical attributes during tests of appraisal ratio samples. When it is determined that the property appraiser’s physical data is incorrect, a material mistake of fact (MMF) notice is provided to the property appraiser. A MMF is defined by Section 193.1142(2)(c), Florida Statutes, as any and all mistakes of fact relating to physical characteristics of property that, if included in the assessment of the property, would result in a deviation or change in the assessed value of the property. This can include errors in such factors as land area and building measurements. If a tax roll is found to be in substantial non-compliance due to MMF, DOR can issue an administrative order requiring the property appraiser to correct the problems. DOR’s in-depth study guidelines state that regardless of the appraisal approach used, it is required to check for MMF. The DOR appraiser is required to “spot check” measurements against property appraiser data and verify such data by reasonable means until a degree of confidence has been reached that the data is accurate. For the 2004 and 2005 in-depth studies, no administrative orders relating to MMF were issued.

In January 2004, a policy memorandum was appended to DOR’s in-depth study guidelines clarifying MMF and observed factual differences (OFD). The memorandum stated that OFD do not become MMF unless the property appraiser makes a change to the tax roll due to the OFD, and the factual change affects the assessed value. The DOR appraiser is instructed to exercise judgment in determining the affect of OFD on assessed value, using a recommended threshold of 5 percent or greater of assessed value. Also, the DOR appraiser is to

determine whether the OFD indicates a systemic problem based on whether the number of OFDs in the sample is 10 percent or greater. However, the instruction in this memorandum was not supported by law or rule, thus its authority was not apparent.

Counties in the in-depth studies using only the all sales methodology do not include procedural audits of appraisal records, thus limiting the assurance that property data is correct. Consequently, the inspection of appraisal ratio samples is the only method available to DOR to ensure the accuracy of property appraiser physical property data. Our analysis of the four in-depth study counties (Collier, Duval, Pinellas, and Walton) as well as Franklin County (contract appraisers used by DOR) noted the following discrepancies between DOR data and property appraiser data among value-related MMF, as well as instances in which the discrepancies in land size or improvements were not reported to the property appraiser.

Study	No. Of Samples	Discrepancies	Percentage Of Samples with Discrepancies	Reported to Property Appraiser	Not Reported to Property Appraiser
Pinellas	46	42	91	22	20
Walton	57	38	68	35	3
Collier	21	17	81	4	13
Duval	30	29	97	1	28
Franklin	61	46	75	46	0

Additionally, in the 2005 Duval County study, we noted that 2 of the 30 samples were unverified by DOR for land size, and 18 of the 30 samples were not verified for building size.

Accurate property data is equally critical to the validity and reliability of ratio studies, particularly studies using the sales ratio methodology. DOR’s test results noted above indicated that improvement is needed in the accuracy of the county property appraiser records in some counties

Recommendation: In those counties studied exclusively by the all sales methodology, a procedural audit should be performed to supplement the sales study which includes field verification of a representative sample of the counties’ appraisal records. Furthermore, DOR’s policy regarding MMF should be revised to provide that any and all MMF relating to physical characteristics of property, if included in the assessment of the property, will result in a deviation or change in the assessed value of the property, consistent with Section 193.1142(2)(c), Florida Statutes.

Finding No. 9: DOR and County Property Appraiser Value Changes Subsequent to County Review

In the final phase of the in-depth study process, those counties studied using the traditional appraisal ratio methodology are provided a conference or “county review.” DOR meets with the county property appraiser to review the appraisals prepared by DOR for the purpose of correcting property description errors and exchanging market information relating to the appraisals. At this meeting, under current DOR policy, the in-depth study samples are disclosed to the county property appraiser, who can make changes to assessed values, and DOR staff can make changes to the appraisals prepared by DOR. If the county’s level of assessment is below the 90 percent

threshold, or other statistical measures are not met after the county review, 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 properties based on errors identified in the county review process and to also correct similar errors that may exist throughout the entire tax roll. DOR's in-depth study results are based on the assumption that the mass updates are equitably done and cover all applicable properties.

In our report No. 2004-177, Finding No. 9, we recommended that DOR not allow “mass update” assessments subsequent to the county review to be included in the in-depth study results unless the revised tax roll is tested. For the 2004 and 2005 roll approval process, DOR developed a method (referred to as “Code 4” letters) to track whether the county property appraiser made changes to the relevant population of properties.

DOR's Inspector General issued an audit of the Property Tax Administration's appraisal change activity (report No. 2005-0041-A) dated April 2006, which focused on assurances that promised stratum-wide assessed value changes were actually made. The DOR audit report concluded that the “Code 4” letters often did not provide adequate information to determine if changes were actually made to the populations as attested to by the county property appraisers and values for many parcels sampled were not adjusted as stated in the population change form letters.

We reviewed data from all thirty-four 2004 in-depth studies and data from all thirty three 2005 in-depth studies. Over the two year study period, 3,750 appraisal samples were appraised. Subsequent to county review with the property appraiser, 359 samples, or 9.8 percent, had changes in appraised value by DOR. After the review with the property appraiser, and after a number of changes to appraised value were made by DOR, the measures improved significantly into the approvable range. During the two year study period, DOR's acceptable level of assessment (LOA)¹ measure was 90 percent or greater.

We identified 21 strata in 17 county in-depth studies in which one or more failing measures were improved to approvable status as a result of DOR changes in appraised value at county review. Initially, 13 strata failed in Level of Assessment (LOA), 13 failed in coefficient of dispersion (COD)², and 13 failed in price related differential (PRD). After county review, all strata achieved 90 percent or greater in LOA, 11 met COD measures, and 9 met PRD measures. These 13 strata included 890 appraisal samples, including 198 (22.2 percent) where DOR changed its appraised value. Additionally, DOR increased aggregate stratum value in 5 strata and decreased aggregate value in 16 strata. Conversely, property appraiser aggregate stratum value increased in 15 strata and decreased in 6 strata.

¹ Level of Assessment (LOA) is the ratio of the assessed value to the selling price or DOR appraised value and is used as a measure of the relationship between an assessment and a market value.

² See finding No. 3 for descriptions of Coefficient of Dispersion (COD) and Price Related Differential (PRD).

The following table lists the DOR change activity for the 17 studies and 21 strata discussed above.

DOR Value Changes at County Review									
County	Stratum	LOA		COD		PRD		Samples	Changes
		Pre	Post	Pre	Post	Pre	Post		
2004									
Gilchrist	4			34.0	8.8	116.0	101.8	6	3
Gilchrist	6	86.1	90.7					40	14
Gulf	5	85.5	98.5	26.1	11.3	111.1	99.8	37	10
Lafayette	4	88.1	98.9	22.3	16.6	109.0	99.7	99	3
Liberty	4			27.5	8.7			39	7
Palm Beach	6	89.9	92.2					11	1
Union	1	88.0	94.4					39	17
Walton	6	89.1	94.2	20.3	12.5	107.1	103.1	57	19
2005									
Alachua	2	79.4	91.0	26.6	11.9	126.0	103.5	40	25
Alachua	6					107.3	103.4	24	6
Dixie	1			18.8	15.0	104.1	102.6	40	3
Dixie	4			20.5	11.3			40	3
Franklin	4			22.9	7.1	106.2	98.8	48	13
Glades	4			43.9	28.8	103.6	110.0	38	7
Hardee	6					92.7	95.5	40	12
Jefferson	6	82.9	91.7					40	3
Monroe	6	82.1	93.8	25.4	15.0	115.7	104.5	67	6
Sumter	6	89.0	91.0					44	1
Wakulla	1	88.2	95.5	16.3	16.3	105.3	105.3	52	4
Wakulla	4	80.8	99.1	30.0	30.0			57	12
Washington	4	87.0	99.0			127.7	106.6	32	29
Total								890	198

As indicated in this table, the changes in the statistical measures for specific strata frequently changed from unacceptable to acceptable outcomes resulting in tax roll approval. These results, considered in light of the

process of disclosing the sample items to the county property appraiser at the county review, making changes by both the county property appraiser to the assessed values and by DOR to the appraised values, and not requiring verification that corresponding changes were made to the entire tax rolls, raises a concern that approval of the tax roll may be essentially the result of a negotiation of value estimates as opposed to a comprehensive and verifiable study of the final tax roll assessment values.

The DOR's Inspector General report, mentioned above, included a recommendation for a standardization of reasons for DOR value changes. The four reason codes adopted by DOR were Clerical Errors; Superior Data by the Property Appraiser; Negotiated Change with the Property Appraiser; and Unobtainable Data. While we concur with the audit recommendation that a standardized set of change reasons is needed for DOR value changes made during an in-depth study, it is not clear that some of the adopted standards are appropriate. For example, if the reason cited for a change in value is that the property appraiser possesses superior data, it is difficult to understand why DOR cannot possess data that is at least comparable with the property appraiser. Additionally, we are unaware of any appraisal or assessment provision that would allow the appraised value of a sample to be negotiated for ratio study purposes.

Recommendation: DOR should cease the practice of negotiating sample values with the property appraiser and take the necessary action to enhance the validity, accuracy, and thereby the defensibility, of appraisal reports upon which in-depth study results are based. Also, DOR should reevaluate the reason codes adopted for use in documenting value changes made by DOR appraisers during an in-depth study.

Follow-up to Management Response

The Executive Director, in his response to this finding, stated that it is incorrect to refer to value changes by either the Department or the county property appraiser as "negotiating sample values with the property appraiser." The Executive Director further stated that parties at these conferences present and professionally discuss all relevant data pertaining to the samples. The Department considers such discussions as an important part of its quality assurance process. Results of these meetings are monitored to assure that any changes made by the Department are supported on professional appraisal grounds. However, the list of codes accepted by DOR relating to changes made at the conferences between the DOR appraisers and the county property appraiser's refers to "Negotiated Change with Property Appraiser." Our review found that the files only give an indication of the reason for the change but no documentation justifying the change. The in-depth study manual does not provide any instructions regarding documentation of the support relied upon for making changes at these conferences.

Finding No. 10 Required Appraisal Reviews for DOR Appraisals

DOR's Real Property In-Depth Study Guidelines (Guidelines) state that there are two levels of quality control, or review, applicable to appraisal ratio samples; a review by an appraiser specialist and a quality assurance review by the quality assurance team. The Guidelines state that each appraisal ratio sample must be reviewed by an appraisal specialist and the file is not complete until the reviewer has signed the review. The quality assurance review is required by the Guidelines to be performed on a representative sample of the appraisals; however, the Guidelines do not provide guidance as to what constitutes a representative sample.

Our review of 154 appraisal ratio sample files disclosed the following:

- For the 2004 Pinellas and Walton County studies and the 2005 Collier and Duval County studies, only 6.5 percent contained a quality assurance review.
- For the 2004 Walton County study, 17 of 57 sample items did not contain appraisal specialist reviews.
- For the 2004 Pinellas County study, both reviews lacked signatures identifying the reviewers.
- For the 2005 Collier County study, conclusions as to the adequacy of the DOR appraisals were omitted from seven (33.3 percent) of the reviews by appraisal specialist.

Recommendation: DOR should conduct complete and thorough reviews of appraisal sample reports in accordance with its Guidelines.

Other Ratio Study Issues

Finding No. 11: Outsourcing and DOR Workload Issues

For the 2004 and 2005 in-depth studies, DOR contracted with two appraisal firms (utilizing a Request for Proposal (RFP) process) to prepare appraisals in strata one (single family residential) and four (vacant residential land). According to the RFP, the outsourcing "allows the Department's appraisers to concentrate on the more complex properties found within strata two (multifamily) and six (commercial). The implementation of this process will result in a more efficient use of the Department's resources".

The Real Property Field Section of the DOR Property Tax Division is responsible for preparing appraisals for the in-depth studies. The Field Section had 72 appraisers and 10 administrative staff for the 2004-05 fiscal year. DOR appraisers prepared a total of 1,779 appraisals for the 2004 in-depth studies and 2,064 appraisals for the 2005 in-depth studies. Included in these totals, were 145 appraisals in stratum two (multi-family) and 948 appraisals in stratum six (commercial) for the 2004 in-depth studies, and 105 appraisals in stratum two (multi-family) and 1,017 appraisals in stratum 6 (commercial) for the 2005 in-depth studies. While contracting with outside appraisal firms may have allowed the DOR appraisers to concentrate on the more complex properties found within strata two (multi-family) and six (commercial), the number of multi-family and commercial appraisals has not increased significantly and the deficiencies cited in our previous reports (Nos. 12408, 13062, 01-003, and 2004-177) relative to the inadequacy of the appraisals prepared by DOR appraisers continued during this audit period. For example, we noted commercial appraisals prepared by DOR appraisers that contained only one approach to value even though DOR policy and USPAP require at least two approaches, a lack of procedural audits being performed by DOR which could help to identify and correct problems in the commercial and multi-family appraisals prepared by DOR appraisers; and instances during the county review process where DOR appraisers concede to the county property appraisers' estimates of value rather than defend their own estimates of value, many times stating that the county property appraisers have better data in support of their value estimates. If the purpose of contracting with appraisal firms was to allow DOR appraisers to concentrate on the more complex properties in the multi-family and commercial strata, as stated, it appears that there should be improvement in the numbers and quality of appraisals of such properties by DOR appraisers. As indicated above, this did not occur.

Recommendation: DOR management should re-evaluate and modify, as necessary, its procedure for staff appraisals, as well as the process of contracting with appraisal firms to assure that the appraisals are assigned and performed in the most efficient and effective manner.

Finding No. 12: Across-the-board 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...."

In our report No. 2004-177, we reported that DOR does not conduct any research to determine if the 8th criterion adjustments reported by each county property appraiser are reasonable and reflective of market conditions. DOR's response to the audit finding stated "In evaluating assessment rolls, the Department uses the adjustments as reported by the Property Appraisers. Within this context, potential methodologies for collecting and documenting data for evaluating the reasonableness of the 15 percent reporting threshold should be studied further. The Department has begun a project to evaluate potential methodologies for collecting and documenting such data and for estimating the potential fiscal impact of any changes to this reporting threshold." However, in DOR's corrective action plan dated June 30, 2005, DOR stated "The Department has received input on this matter for the Property Tax Administration Task Force which recommended that this issued be removed from further consideration. The Department also received input from interested parties at a public workshop and a clear majority of those who spoke at this workshop expressed strong opposition to any changes to the existing rule. Based on this input from interested parties, the Department plans no further action at this time."

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. The reported adjustment is intended to represent the total seller costs and any atypical financing prevalent in a particular market place. Each year, with the submittal of the preliminary assessment roll, county property appraisers are required to report on DOR Form DR-493 the percentage factors applied within real property use code groups to reflect the 8th criterion conditions.

This rule applies to property appraisers and their method of reporting to DOR, and does not require that DOR accept the reported factors without independent verification. The rule would not appear to relieve DOR of its general oversight responsibility under Section 195.002, Florida Statutes, which states "The Department of Revenue shall have general supervision of the assessment and valuation of property so that all property will be placed on the tax rolls and shall be valued according to its just valuation, as required by the constitution."

As stated in our report No. 2004-177, the fiscal impact of the 15 percent adjustment is significant. In a publication titled The 2002 Florida Tax Handbook including Fiscal Impact of Potential Changes, published by the staffs of the Senate Finance and Taxation Committee, the House Committee on Fiscal Policy and Resources, the Office of Economic and Demographic Research, and the Office of Research and Analysis of the DOR, DOR was criticized by the Grand Jury in its presentment of September 1990 for uniformly permitting a reduction of assessments to 85 percent. The fiscal impact of the 15 percent adjustment was reported at \$3,396,700,000 in additional taxes.

Recognizing the potential negative fiscal impact on county budgets and school boards if the 8th criterion adjustment were overstated, it would appear that DOR should give a high priority to determining if the factors reported by county property appraisers are at least reasonable and supportable in the marketplace.

Recommendation: We again recommend that DOR develop a comprehensive program to annually collect and analyze pertinent market data which would accurately quantify the factors to be considered in developing 8th criterion factors. The independently derived factors should be analyzed by various property types and applicable value increments. Also, DOR should use its independently derived 8th criterion factors in evaluating the data submitted with the tax rolls and discontinue accepting "across the board" adjustments which have no market support.

Follow-up to Management Response

The Executive Director, in his response to this finding, stated that the determination of the amount of the adjustment for the 1st and 8th criteria is the responsibility of the county property appraisers and the Department's responsibility is limited to the establishment of a reporting threshold and administration of such rule. Accordingly, Department of Revenue Rule 12D-8.002(4), Florida Administrative Code, specifies that if any reported percentage adjustments for the 1st and 8th criteria exceed 15 percent, complete, clear, and accurate documentation supporting the adjustments must be provided to the Department. The Executive Director further stated that no county property appraisers have reported adjustments greater than 15 percent in recent years. In order to assure that these criteria are reasonably considered within the definition established in Section 193.011, Florida Statutes, in deriving just value, the Department should, as recommended in the finding, collect and analyze pertinent data to evaluate the 8th criterion factor and discontinue accepting "across the board" adjustments which have no market support.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

In response to our report No. 2004-177 issued on April 5, 2004, on the administration of the Ad Valorem Tax Program, DOR has taken the following actions that eliminated findings included in that report:

- In Finding No. 10 concerning inadequate documentation for voided sample items, we recommended that DOR be more diligent in its efforts in documenting whether randomly selected sale samples were appropriate for use in the in-depth studies. DOR made substantial progress in this area during the 2004 and 2005 in-depth studies.

- In Finding No. 11 concerning the level of assessment for nonin-depth study years, we recommended that DOR review its nonin-depth study methodology to assure that the results produced by those studies provide reasonable levels of assessment estimates. DOR has made progress in addressing these concerns.

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.

Respectfully submitted,

William O. Monroe

William O. Monroe, CPA
Auditor General

MANAGEMENT RESPONSE

The Executive Director of the Department of Revenue, in a letter dated September 29, 2006, provided his response to our preliminary and tentative findings. The letter is included, in its entirety, in Appendix A of this report.

This audit was conducted by Lew Roche and supervised by Hardee Ratliff, CPA. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via e-mail at jimdwyer@aud.state.fl.us or by telephone at (850) 487-9031.

This report, and other reports prepared by the Auditor General, can be obtained on our Web site at <http://www.state.fl.us/audgen>; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
MANAGEMENT RESPONSE



JIM ZINGALE
EXECUTIVE DIRECTOR

DEPARTMENT OF REVENUE
TALLAHASSEE, FLORIDA 32399-0100

September 29, 2006

Mr. William O. Monroe, CPA
Auditor General
Office of the Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

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 August 30, 2006, on the Auditor General's operational audit of the Department's Property Tax Administration Program.

Since 2000 the Department has undertaken an extensive reengineering of its real property assessment roll oversight process. This effort, which is ongoing, has resulted in substantial improvements in the Department's ability to evaluate the accuracy and uniformity of assessment rolls, both within and between counties. The Department appreciates the acknowledgement in the Auditor General's report of a number of improvements, including improvements to the in-depth review field manual for 2004-2005, to the representativeness of DOR's sampling plan, in the results of the sampling process, in the results of the alternate ratio during the audit period, in the documentation of whether randomly selected sale samples were appropriate for use in in-depth reviews, and in the reasonableness of the level of assessment estimates produced through the non-in-depth study methodologies. The last two areas were the subject of findings in the Auditor General's last report (April 2004) but were not included as findings in the current report.

Several other improvements have been implemented as well. The Department now applies all non-in-depth study methodologies to all in-depth counties, thereby greatly improving its ability to evaluate whether all assessment rolls are in substantial compliance with the law. The Department has tightened its uniformity standards to adhere more closely to standards published by the International Association of Assessing Officers (IAAO). As noted in the Auditor General's 2004 report, the Department has documented and retained a record of the findings used as the basis for the approval or disapproval of assessment rolls. In 2004, the Department implemented a new uniform appraisal reporting format designed to facilitate the development and reporting by Department appraisers of appraisal samples that are consistent with the Department's standards of practice. Training courses covering the Uniform Standards

Mr. William O. Monroe, CPA
September 29, 2006
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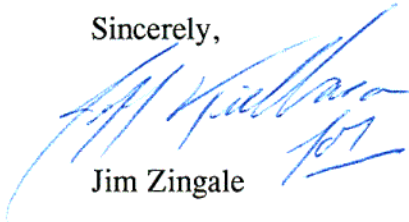
of Professional Appraisal Practice (USPAP) were provided to the appraisal staff of both Property Appraisers and the Department. Applicable standards were discussed in the Florida Real Property Appraisal Guidelines for Property Appraisers. In September of 2005, the Department began delivering a new educational curriculum to its appraisal staff based on publications and courses from the Appraisal Institute.

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 resource or practical limitations. As the IAAO points out in its Standard on Ratio Studies (1999), "*The design of ratio studies always requires decisions that weigh the value of greater statistical reliability against available resources and costs.*" For fiscal year 2004/05, the Department requested an additional 20 positions for the specific purpose of increasing its capacity to produce appraisal samples to enhance sample representativeness. The Legislature did not fund these positions.

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 to make recommendations for further improvement. Attached are the Department's comments in response to the individual recommendations presented in the your preliminary and tentative report.

We appreciate the professionalism displayed by your audit staff. If further information is needed, please contact Sharon Doredant, Acting Inspector General, at 487-1037.

Sincerely,



Jim Zingale

JZ/bs0

Attachment

**Department's Response to the Preliminary and Tentative Findings
Auditor General's Operational Audit of the
Administration of the 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: We again recommend that DOR complete and implement the uniform market area guidelines, as soon as possible, to improve DOR's ability to evaluate market data and more closely track the IAAO statistical standards (see Finding No. 3); to facilitate the establishment of representative samples for use in DOR's sales ratio studies; and to improve DOR's ability to analyze tax rolls.

Response: The Department believes that uniform market area guidelines should be adopted as soon as possible and has been consistently working toward that goal. In the development of these guidelines, the Department is required to follow Chapter 120, Florida Statutes (Administrative Procedures Act), which provides for a lengthy, open, and public process designed to provide opportunities for input from all interested parties. Prior to the development and release of the first draft of the Florida Uniform Market Area Guidelines, the Department held four public workshops on the subject of market areas. The first draft of these uniform guidelines was dated June 9, 2003, and the most recent (eighth) draft is dated August 14, 2006. Since the release of the first draft, a total of nine public workshops and two public rule hearings have been held in order to receive input from interested parties on the drafts. Though time consuming, the Department believes this process is crucial to the success of these guidelines.

The issues involved with market area codes on assessment rolls are technical and complex, and require time for appropriate resolution before adoption of uniform market area guidelines. Currently, the Department plans to release another draft in the next few weeks followed by the public workshops necessary to ensure that all interests are appropriately considered. The Department will continue working toward adoption of these uniform guidelines in an open and public process.

Finding No. 2: DOR's procedures manual for the review of county assessment rolls for the 2004 and 2005 in-depth studies was incomplete.

Recommendation: To provide assurance that employees clearly understand DOR's appraisal standards and procedures to follow in conducting the in-depth studies, DOR's procedures manual should continue to be enhanced to provide complete and detail steps in the in-depth study process and provide each employee involved in the in-depth studies a clear understanding of the entire process. This procedures manual should be a self-contained reference document and a detail source document for training employees and should clearly establish appraisal standards by which the staff appraisers' work products are evaluated. Incorporating applicable

sections of the Florida Real Property Appraisal Guidelines into the manual could provide applicable reference information.

Response: The Department's Real Property In-Depth Review Field Manual was revised and reorganized for the 2004-2005 in-depth reviews. The Department appreciates the Auditor General's acknowledgement of improvement in this manual. The Department is revising the Real Property In-Depth Review Field Manual for the 2007 in-depth review. This revised manual will incorporate a complete description of the real property in-depth study process and will include the Department's appraisal standards and procedures, as recommended by the Auditor General.

The Auditor General states that this "*procedures manual should be a self-contained reference document and a detail source document . . .*" However, the Department will not re-create in this manual the published body of knowledge relating to appraisal and ratio studies and instead will use footnoted references where appropriate to provide guidance on additional sources of useful information. While the Florida Real Property Appraisal Guidelines are intended as a reference for the mass appraisal process used by Property Appraisers, the Department will evaluate for incorporation into the field manual any relevant information from those Guidelines.

Finding No. 3: The International Association of Assessing Officers statistical standards were not fully implemented during the audit period.

Recommendation: DOR should fully implement the IAAO statistical standards. As indicated in Finding No. 1, procedures should be incorporated in the market area guidelines to enable DOR to more closely track these standards.

Response: The Department appreciates the Auditor General's review and recommendations regarding the Department's discretionary use of external standards. The Department is committed to the adherence of the requirements of Florida law. Subsection 195.096(2)(d), Florida Statutes, states, "*In the conduct of these reviews, the department shall adhere to all standards to which the property appraisers are required to adhere.*" The only standards to which the Department is required to adhere are those provided by law. Within its sound discretion and not inconsistent with law, the Department uses external sources of information such as the Standard on Ratio Studies (1999), published by the Association of Assessing Officers (IAAO), as additional guidance for the conduct of its in-depth reviews of assessment rolls. However, as stated in the IAAO Standard on Ratio Studies (1999), "*The standards presented here are advisory in nature and the use of, or compliance with, such standards is purely voluntary.*" The Department uses the IAAO standards as they were intended, as advisory and not as mandatory.

In preface to the Department's responses to Recommendation Nos. 3 and 6, the following excerpt is presented from the IAAO Standard on Ratio Studies (1999):

Judgment is essential when conducting a ratio study or when evaluating or using the results. Ratio studies reduce uncertainty about appraisal accuracy by providing an objective basis for evaluating appraisal level and uniformity. Nevertheless, real estate markets consist of many individual properties, each unique in some way, and market participants who are imperfectly informed and not always rational. This, together with the statistical errors inherent in any sampling process, makes judgment essential when evaluating a ratio study and acting on the results.

Accordingly, the Department realizes that each quantitative indicator from a ratio study should be interpreted and used in conjunction with other indicators of assessment performance and in a manner consistent with the inefficiencies inherent in real property markets and the imperfections of conducting ratio studies and using their results.

In recent years, the Department has substantially improved the evaluation of assessment uniformity by changing the coefficient of dispersion (COD) standard for statutory stratum one from 20 to 15, and by changing the COD standard for statutory strata two, five, and six from 25 to 20. The Department currently uses a COD standard of 15 for all property in stratum one (residential property). For residential property, the IAAO recommends a three-level standard for the COD, as follows: 10 for newer, homogeneous areas; 15 for older, heterogeneous areas; and 20 for rural and seasonal areas. However, there are major practical and technical difficulties with fully implementing such a three-level standard, including the following: (1) the inefficiencies inherent in real property markets, as described above; (2) the imperfections of conducting ratio studies and interpreting and using their results, as described above; (3) the development of specific criteria for fairly segregating counties into the three categories; and (4) the development of computer programs for efficiently identifying in which of the three groups a particular county should be placed. Professional research on the COD continues through monitoring the current revision of the IAAO Standard on Ratio Studies. Thus far, however, the research on how to defensibly stratify Florida's counties into the three groups has not resulted in useful information. At this time, the Department is unaware of any oversight agency that has implemented the IAAO three-level standard for the COD for residential property. Further, the Auditor General has not provided to the Department any information on actual examples of implementation of this three-level standard and has not provided to the Department any guidance on appropriate criteria for such implementation.

The Department also has substantially improved the standard for assessment uniformity by narrowing the price-related differential (PRD) standard from the .90 to 1.10 range to the following ranges for statutory strata subject to review: .98 to 1.03 for strata one, two, four, and five; and .95 to 1.05 for stratum six. The IAAO Standard on Ratio Studies (1999) recommends a range for the PRD standard of .98 to 1.03 for all real property types and also indicates that there may be cases where the PRD standard is not absolute. The application of this uniformity standard may require consideration of the characteristics of the underlying data set along with professional judgment as described above. Further, since there may be situations in which a calculated PRD would legitimately lie outside the range recommended by the IAAO, the narrowing of the PRD standard for statutory stratum six may be largely

academic. However, with the understanding of these caveats and the need for professional judgment in applying these standards as described above, the Department will adopt the IAAO PRD standard of .98 to 1.03 for stratum six, beginning with the 2007 in-depth review.

Finding No. 4: Problems with the DOR sampling plan implementation of the new sampling plan caused some in-depth studies to have an inadequate number of samples in certain strata. 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: To obtain accurate statistical results from the in-depth studies, all value groups should have adequate representation. DOR should enhance its current sampling procedures to achieve the required number of sample items per value group based on acceptable statistical measures. Whether the sample items are sales or appraisals, each tested category and every value group must contain a sufficient number of sample items to achieve the required or targeted confidence interval or margin of error objectives. Additionally, the current sampling procedures should be revised to include a requirement that samples of sales be supplemented with appraisals when there are not enough sales to meet the required minimum sample size as determined by the applicable statistical formulas. Also, if the "exception" parcels (value group 6) are separated from the sample population, these parcels should be 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 the value is reasonable.

Response: The Department has made diligent efforts to improve the representativeness of its in-depth study samples, including the establishment of a new sampling methodology based on four value groups as recommended by the Auditor General. To enhance sample representativeness, the Department worked with the Auditor General's staff and consultant to establish procedures for creating the four value groups with each statutory stratum subject to in-depth review. Also, commencing with the 2001 in-depth study, the sample size requirement for each reviewed stratum is based on a formula recognized by the IAAO. Due to legal requirements, the Department's staff must conduct in-depth reviews on assessment rolls concurrently being prepared by the Property Appraisers. Therefore, in order to allow the time required for its staff to conduct the field portion of the in-depth review, the Department must select its in-depth study samples for a given in-depth review about one year before the assessment rolls are completed and submitted by the Property Appraisers. Because of this, there is an unavoidable one-year delay between the selection of the samples at the beginning of the in-depth review and the statistical analysis of the roll at the end of the in-depth review. Sample size problems often are not revealed until the assessment rolls are processed in July, at the end of the in-depth review, which leaves no time to generate and study any additional samples. When sampling objectives are not met, it may be due to factors such as the following: (1) sample parcels shifting from one value group to another from the beginning to the end of the in-depth review; (2) the population of properties from which to draw a sample being less than the desired sample size; (3) the variation of ratios changing from one study to the next; and (4) and available resources being insufficient to produce the desired number of samples.

Each of the above concerns was communicated to the Auditor General's staff and consultant during the revision of the Department's sampling plan. When sampling objectives are not met, the Department reviews the reasons and makes diligent effort to avoid recurrence of those factors within its control. Given the importance of these issues, the Department will continue its efforts to improve sample representativeness and achieve desired sample sizes, within existing resource and time constraints.

The Program submitted a 2005 Legislative Budget Request for four additional positions, but these positions were not included in the final budget. The Program submitted a 2006 Legislative Budget Request for additional funds to conduct procedural audits on "exception" parcels. The 2006 Legislature approved a recurring annual amount of \$447,600 to outsource a portion of the procedural audit process. The Department is currently developing a procedural audit implementation plan that will include the use of a portion of this recurring annual amount for procedural audits of at least some of the seven to nine "exception" parcels that exist in each in-depth review.

Finding No. 5: The AVQUAL study would be more representative if the samples were stratified to reflect other processes of the in-depth study. DOR's policy relating to decision making in the AVQUAL process should be revised to help insure independent and accurate results.

Recommendation: Given the increased reliability on sales data provided by the county property appraisers, DOR should enhance the sale qualification study (AVQUAL) by stratifying all available sales, both residential and non-residential, into property classes and value ranges consistent with those strata to be included in the in-depth study process. This would provide better representation of all property types in the study. The independence, credibility, and validity of the qualification study may also be improved by initiating independent verification of all AVQUAL study samples. The qualification study may also be improved by better utilizing information submitted to DOR by the clerk of courts on Form DR-219.

Response: The Department believes that its current practice of sampling from all sales is compliant with current law. The Department conducts the statutory sale qualification study (AVQUAL study) in accordance with the provisions in subsection 195.0995(2), Florida Statutes, which states in part the following: *"The department shall randomly sample all sales in the county to determine whether those sales were properly qualified or disqualified."* Samples drawn for the sale qualification study are representative of the entire sale population within each county. The AVQUAL study is designed to identify any systemic opportunities for improvement that may exist in a county's sale qualification process as a whole.

As noted in the Auditor General's report, the Department conducts a second (stratified) sale qualification study (AV233 study) based on sale samples randomly selected from the four value ranges within each of the statutory strata projected to be part of the in-depth review. This stratified sale qualification study is consistent with the recommendations of the Auditor General and is conducted annually at the beginning of each in-depth review. The Department uses the

results of this study to evaluate the appropriateness of using sales for statistical analysis and to communicate any need for improvement to the counties under in-depth review. The Department has exceeded the requirements of law and proactively addressed the importance of the sale qualification process by committing time and resources for the conduct of two separate qualification studies, each appropriately designed to achieve a desired purpose.

The Auditor General's report states the following:

Our review of the four county studies revealed a propensity to accommodate and validate property appraiser sale qualification data. In three of the four AVQUAL studies, DOR made significant numbers of changes in its sales qualification decisions that resulted in the property appraisers achieving the required 90 percent pass rate.

The Department does not believe this is an accurate characterization of its AVQUAL study. In conducting this study, the Department follows the procedure provided by statute and Rule 12D-8.011(1)(m)3., Florida Administrative Code (F.A.C.). Section 195.0995(1), Florida Statutes, states, "For each sales transaction disqualified by a property appraiser, the property appraiser shall document the reason for disqualification of the sale in a manner prescribed by the department."

For the Department's sale qualification studies, the documentation currently required falls into two categories. The first category applies to sales qualified or disqualified as a result of examining the deed and comparing it to the disqualification criteria listed for consideration in Rule 12D-8.011(1)(m)3., F.A.C. The documentation for this category consists of the deed (the Department obtains the deed through its own research) and the appropriate code that counties are required to report to the Department pursuant to Rule 12D-8.011(1)(m)3.u., F.A.C.

The second category of documentation required from counties pertains to sale qualification and disqualification decisions by a county that are based on criteria other than those listed for consideration in Rule 12D-8.011(1)(m)3., F.A.C. Within this second category are sales qualified by the Property Appraiser even though the deed matches one or more of the disqualification criteria listed for consideration in Rule 12D-8.011(1)(m)3., F.A.C., and sales disqualified by the Property Appraiser where the deed does not match any of the listed disqualification criteria. Before the Department will accept a sale qualification or disqualification decision within this second category, the county must provide to the Department credible, verifiable, and documented evidence that justifies the decision. Such evidence must reflect the research and analysis performed by a county (in addition to examining the deed) that justifies the decision. Unless such additional research and analysis is conducted, documented, and provided to the Department by the county, the Department will rely on its analysis of the deed pursuant to Rule 12D-8.011(1)(m)3., F.A.C. Under these procedures, it is not uncommon or inappropriate for the Department to accept decisions to qualify or disqualify sales for reasons documented and provided by the property appraiser.

The Auditor General recommends that the AVQUAL study may be improved by initiating independent verification of all study samples and by better using the information submitted to the Department by the clerks of court on Form DR-219. Due to current resource limitations, the Department is unable to initiate independent verification of sales. As noted in the Auditor General's report, the Department has been researching potential solutions for improving the quality of DR-219 data. Several opportunities for improvement have been noted, including numerous sources of data entry errors, delays in submitting data, limitations of the Department's DR-219 legacy data processing system, and the lack of enforcement penalties. The Department is in the process of establishing a working group of DR-219 stakeholders to examine these issues and search for solutions that would make the DR-219 data a more useful tool in the appraisal and oversight process.

Finding No. 6: Some statistical tests indicate that DOR samples may not have been representative of the county tax rolls.

Recommendation: DOR should establish specific and objective evaluative criteria to demonstrate the verification of the representativeness of its all sales methodology samples, including criteria for comparing percent changes in the tax roll for the prior year for the sample, as compared with the target population, to the percent changes for the current year.

Response: The Department implemented the alternate ratio as recommended in the Auditor General's 2000 report and appreciates the Auditor General's acknowledgement of improvement in this statistical measure of representativeness. As described in our response to Recommendation No. 3, the results of quantitative methods for evaluating sample representativeness must be interpreted and used in a manner consistent with the inefficiencies inherent in real property markets and with the imperfections of conducting and using ratio studies. The establishment of specific and objective criteria for comparing percent changes in the values of samples and populations would be very difficult. We are unaware of any specific and documented professional study or standard for the difference in percent changes between ratio study samples and populations. Also, the Auditor General's report did not reference any professional study or standard for the difference in percent changes between ratio study samples and populations.

The Department continues its professional research for reviewing ratio study issues through monitoring the current revision of the IAAO Standard on Ratio Studies. Thus far, research has not revealed the existence of any standard prescribing a specific, maximum, allowable difference between the percent changes in value for ratio study samples and populations. Since the IAAO Standard on Ratio Studies (1999) is currently under revision, the Department's conclusions and implementation of any changes to current practices in this area will not be finalized until the revised Standard has been published.

Finding No. 7: Appraisal reports and related DOR records were not always adequate to ensure that value estimates for subject properties were reliable and creditable. 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 supportable.

Recommendation: DOR should assure that generally accepted appraisal standards and procedures are properly applied and appropriately documented to clearly evidence the accuracy of all value estimates.

Response: The Department appreciates the Auditor General's review and recommendations regarding the Department's development and reporting of appraisal samples. The Department is committed to the adherence of the requirements of Florida law. Subsection 195.096(2)(c), Florida Statutes, states in part the following:

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 of the subject of a ratio study published by it. [Underlined emphasis added.]

Recent practicable steps take by the Department to enhance the reliability of its appraisal ratio studies include the following: (1) provided to all real property staff the 15-hour national USPAP course (tested) in the fall of 2004; (2) provided to all real property staff and managers a copy of the Appraisal Institute text titled "*The Appraisal of Real Estate, 12th Edition*"; (3) provided to each field office a set of additional references on real property appraisal published by the Appraisal Institute; (4) provided to each staff appraiser and manager an industry-standard, HP-12C financial calculator; (5) made improvements to the appraisal reporting format that included the application of entrepreneurial incentive in the cost approach; (6) provided two Appraisal Institute courses to all real property staff and managers; and (7) developed plans to provide additional, industry-standard, appraisal training to all real property staff and management. These steps have already begun to enhance the Department's ability to develop and report credible opinions of just value.

The Auditor General's preliminary and tentative report includes the following statement: "*We conducted both office and field reviews of selected appraisals and related documents in accordance with the same generally accepted appraisal standards and procedures to which DOR and each county property appraiser were required to follow.*" [Underlined emphasis added.] However, the only standards to which the Department is required to adhere are the requirements of law. The Department is unaware of any requirements under Florida law for the Department or Property Appraisers to adhere to any external standards or procedures. The IAAO Standard on Ratio Studies (1999) states, "*The standards presented here are advisory in nature and the use of, or compliance with, such standards is purely voluntary.*" However, within its sound discretion and not inconsistent with law, the Department uses external sources of information such as publications and coursework of the Appraisal Foundation (Uniform Standards of Professional Appraisal Practice), the Appraisal Institute, and the International Association of Assessing Officers, for additional education and guidance for the conduct of its in-depth reviews of assessment rolls.

The Department will carefully review all information provided under Finding No. 7 along with other relevant information and take any needed corrective action. However, as listed below, the Department would like to provide some clarification on certain issues addressed under this finding.

- (1) The Auditor General's report states that the Department's in-depth review field manual provides "*that all approaches to value shall be completed when the approach is considered to be applicable or necessary.*" However, consistent with the Uniform Standards of Professional Appraisal Practice, the Department's manual used the term "*applicable and necessary.*" The difference in meaning between the two terms is significant. The IAAO Standard on Ratio Studies (1999) indicates that limited appraisals (using only valuation approaches that are necessary) are appropriate for appraisal ratio studies. The Department's standard for its appraisal assignments is to complete only those valuation approaches that are both applicable and necessary. However, the Department intends to take advantage of any opportunities to improve the scope of work decisions in its in-depth review appraisals.
- (2) The last paragraph beginning on page 12 of the Auditor General's report discusses the use of appraisal report data fields titled "indicated subject price." This discussion reflects a misunderstanding of the intent and use of these data fields. These data fields are not intended for presenting any quantitative adjustment factors or amounts (as assumed in the Auditor General's report), but rather are intended to allow the appraiser to analyze a range of values within which the subject value would most likely fall. These data fields multiply the subject's number of units of comparison (gross building area in this case) by the unit price of each sale (price per square foot in this case) and show what the subject would sell for at the price per unit for each sale, without using quantitative adjustments. The Department's appraisal form clearly states that this relative comparison analysis is being made without recourse to quantitative adjustments.
- (3) The Auditor General's report states, "*We analyzed appraisal sample data for all the 2004 and 2005 studies, focusing on strata 2 (multi-family) and 6 (commercial), where more than one approach to value would be applicable and necessary.*" The Department does not agree that more than one approach is always necessary for a credible appraisal. In fact, the following excerpt from the Appraisal Institute text titled, The Appraisal of Real Estate, 12th Edition, provides for the use of one approach: "*One or more approaches to value may be used depending on their applicability to the particular appraisal assignment, the nature of the property, the needs of the client, or the available data.*" The use of one approach is consistent with another excerpt from the same source: "*In conducting a particular assignment, the appraiser's judgment and experience and the quantity and quality of data available for analysis may determine which approach or approaches are used.*" There may be situations where a single approach is all that is necessary to produce a credible appraisal. Given workload requirements, resource limitations, and the difficulties with appraising complex properties, the completion of any unnecessary valuation approaches is not an appropriate use of resources. The selection of the necessary valuation approach(es) is performed during the scope of work portion of an

appraisal assignment. Determining the appropriate scope of work in particular valuation assignments is a complex, detailed, and property-specific process that does not reliably lend itself to blanket statements regarding the necessity of more than one valuation approach. These comments do not mean that the Department believes its scope of work decisions do not have room for improvement. Again, the Department plans to take advantage of any opportunities to improve the scope of work decisions in its in-depth review appraisals.

Looking forward, the Department plans to complete its revision of the Real Property In-Depth Review Field Manual for 2007 (including additional guidance on scope of work decisions) and to continue to provide appraisal staff training on the standards and procedures provided by law and described in the revised manual. Also, the Department plans to continue its ongoing education and training program for its appraisal staff and plans to enhance its management of the in-depth review process to minimize both sampling and non-sampling error. These are practicable steps toward maximizing statistical reliability in appraisal ratio studies, as provided by law.

Finding No. 8: DOR does not appear to be adequately addressing property description errors in county property data. The DOR policy relating to reporting material mistakes of fact appears to conflict with the definition in the *Florida Statutes*. DOR's policy regarding material mistakes of fact (MMF) should be revised to provide that any and all MMF relating to physical characteristics of property, if included in the assessment of property, will result in a deviation or change in the assessed value of the property, consistent with Section 193.1142(2)(c), Florida Statutes.

Recommendation: In those counties studied exclusively by the all-sales methodology, a procedural audit should be performed to supplement the sales study which includes field verification of a representative sample of the counties' appraisal records. Furthermore, DOR's policy regarding MMF should be revised to provide that any and all MMF relating to physical characteristics of property, if included in the assessment of property, will result in a deviation or change in the assessed value of the property, consistent with Section 193.1142(2)(c), Florida Statutes.

Department's Response: Complete and accurate appraisal records are critical to the Department's performance of its oversight responsibilities, and procedural audits of counties would be a useful additional tool for evaluating data completeness and accuracy. In the past, the Department has used procedural audits to evaluate the completeness and accuracy of appraisal records, but during the last five years has only conducted procedural audits in response to specific circumstances, due to resource limitations. However, the Department currently has in place other processes and procedures that, while not replacements for procedural audits, assist in the evaluation and enhancement of the completeness and accuracy of appraisal records for counties studied using the all sales methodology, as discussed below.

The Department conducts a complete submission analysis on all assessment rolls submitted each year. This includes analyses of the completeness and accuracy of the appraisal data that

Property Appraisers are required by the administrative code to report to the Department. After the complete submission analysis, the Department then conducts a statistical and analytical review of assessment rolls including evaluation of assessment uniformity. According to the IAAO text titled Mass Appraisal of Real Property, *"If time is not available for a field study, ratio studies can help indicate the quality of existing data. Poor uniformity is likely to be the result of poor data quality."* Indicators of assessment uniformity considered by the Department include the coefficient of dispersion and the price-related differential. These two indicators, if beyond acceptable standards, may result in the issuance of defect letters and possibly administrative orders.

In response to a recommendation by the Auditor General in 2004, the Department submitted a 2005 Legislative Budget Request for four additional positions, but these positions were not included in the final budget. The Program submitted a 2006 Legislative Budget Request for additional funds to conduct procedural audits on "exception" parcels. The 2006 Legislature approved a recurring annual amount of \$447,600 to outsource a portion of the procedural audit process. The Department is currently developing an implementation plan for the procedural audit process that will include the use of this recurring annual amount.

The Auditor General's report raises legal and technical issues regarding the Department's identification and quantification of material mistakes of fact. The Department will conduct additional legal and technical analyses of these issues and implement any necessary changes.

Finding No. 9: The DOR's new policy relating to property appraiser "mass updates" during county review did not provide assurance that appropriate changes were made to the county tax rolls.

Recommendation: DOR should cease the practice of negotiating sample values with the property appraiser and take the necessary action to enhance the validity, accuracy, and thereby the defensibility, of appraisal reports upon which in-depth study results are based. Also, DOR should reevaluate the reason codes adopted for use in documenting value changes made by DOR appraisers during an in-depth study.

Response: The Department has made a concerted effort since 2004 to improve its process for allowing "mass updates" subsequent to county review. Importantly, the Department's Office of Inspector General conducted an extensive audit of the process and made a number of recommendations for improvement, all of which were agreed to by the Property Tax Administration Program. These include the establishment of clear criteria for validating that mass update changes have occurred, including the collection of sufficient data to test and determine whether agreed value changes to the corresponding population of parcels have occurred. These changes will be made for the 2007 in-depth review. As part of this process, the Program is evaluating the feasibility of requiring CAMA system data from both before and after roll review with which to verify that proper changes were made.

It is incorrect to refer to value changes made by either the Department or the Property Appraiser at the final in-depth review conference as *"negotiating sample values with the*

property appraiser.” Parties at these conferences present and professionally discuss all relevant data pertaining to the samples. The Department considers such discussions as an important part of its quality assurance process. Results of these meetings are monitored to assure that any changes made by the Department are supported on professional appraisal grounds. The Inspector General’s report recommended that a comprehensive reason code system be adopted for management reporting purposes as a means of categorizing appraisal changes noted during review. The Department will review the reason codes adopted by the Program to ensure that they accurately reflect the process and constitute a meaningful management tool.

Finding No. 10: It appears that some in-depth study appraisals were not reviewed in accordance with DOR’s guidelines.

Recommendation: DOR should conduct complete and thorough reviews of appraisal sample reports in accordance with its Guidelines.

Response: The Department has recently instituted a number of steps to improve its review process of appraisal sample reports. The Program’s Quality Assurance Team has been reorganized as a separate group and placed under a single administrative process for in-depth study appraisal reviews. Additionally, the Quality Assurance Appraisal Review Form has been revised consistent with recent industry changes. As part of the new process, emphasis will be placed on a risk-based sampling process, allowing a more efficient use of available resources. A revised section on Quality Assurance (including appraisal review) will be part of the revised real property in-depth review field manual for the 2007 in-depth review. These improvements will facilitate the implementation of a consistent Program-wide approach to appraisal review.

Finding No. 11: Contracting for outside appraisal services did not result in improvement in the numbers and quality of DOR appraisals.

Recommendation: DOR management should re-evaluate and modify, as necessary, its procedure for staff appraisals, as well as the process of contracting with appraisal firms to assure that the appraisals are assigned and performed in the most efficient and effective manner.

Response: As cited in the Auditor General’s report, the Department believes that outsourcing single family and vacant residential parcel appraisals allows the Department to concentrate on more complex properties resulting in a more efficient use of its resources. However, the Department acknowledges that in some instances there have been opportunities for improvement with integrating the contract appraisers into the in-depth study process. The Property Tax Administration Program has recently hired a new contract manager to assist in the writing and administration of the outside appraiser contracts. Reviewing the appraisals of the contract appraisers will also be a priority of the newly reorganized Quality Assurance Team. These changes should help improve the process of outsourcing a portion of the appraisal workload.

Regarding issues raised by the Auditor General concerning appraiser workloads and work quality, these are addressed in the Department's responses to Finding Nos. 7, 8, and 9 above.

Finding No. 12: DOR's policy of allowing 15 percent across the board adjustment for the 8th (net proceeds of sale after deduction of fees and costs) criterion has no documented basis. An incorrect adjustment could have a significant fiscal impact on school funding and local government revenues.

Recommendation: We again recommend that DOR develop a comprehensive program to annually collect and analyze pertinent market data which would accurately quantify the factors to be considered in developing 8th criterion factors. The independently derived factors should be analyzed by various property types and applicable value increments. Also, DOR should use its independently derived 8th criterion factors in evaluating the data submitted with the tax rolls and discontinue accepting "across the board" adjustments which have no market support.

Response: Section 193.011, Florida Statutes, lists eight factors, or criteria, which Property Appraisers are required to consider in the just valuation of real property. Florida case law provides that the consideration of these eight factors, including the 1st and 8th criteria, is left to the discretion of Property Appraisers. Therefore, the determination of the amount of any adjustment for these two factors is the responsibility of the Property Appraisers and is not the responsibility of the Department. The Department's role is limited to the establishment by rule of a reporting threshold and to the administration of such rule.

The Florida Administrative Code requires Property Appraisers to report to the Department the percentage adjustments applied by Property Appraisers for the 1st and 8th criteria. Rule 12D-8.002(4), F.A.C., specifies that if any reported percentage adjustments for these criteria exceed 15 percent, then complete, clear, and accurate documentation supporting these adjustments must be provided to the Department. In recent years, no percentage adjustments made by Property Appraisers for the 1st and 8th criteria and reported to the Department have exceeded 15 percent. In evaluating assessment rolls, the Department uses the adjustments as reported by the Property Appraisers pursuant to administrative rule.

Any changes to the administrative code would require the Department to follow the Chapter 120 rulemaking process that involves public workshops and rule hearings designed to receive input from interested parties. The Department has received public input on this matter from the Property Tax Administration Task Force (composed of interested parties), which recommended that this issue be removed from further consideration. The Department also received input from interested parties at a public rulemaking workshop held in December of 2003, and a clear majority of those who spoke at this workshop expressed strong opposition to any changes to the existing reporting threshold. Based on this input from interested parties, the Department plans no further action on this matter at this time.