



**FLORIDA**

Executive  
Director

Leon M. Biegalski

July 20, 2016

**MEMORANDUM**

**TO:** Leon M. Biegalski, Executive Director

**FROM:** Sharon Doredant, Inspector General

**SUBJECT:** Six-Month Update on Auditor General Report No. 2016-076,  
Department of Revenue Administration of the Ad Valorem Tax  
Program

As required by *section 20.55(6)(h), Florida Statutes*, attached is the Department's six-month status update for corrective actions taken in response to Auditor General Report No. 2016-076, Department of Revenue Administration of the Ad Valorem Tax Program.

If you have any questions, please contact me at 617-8152, or Marie Walker at 717-7598.

SD/ww

Attachment

cc: Andrea Moreland, Deputy Executive Director  
Tajiana Ancora-Brown, Chief of Staff  
Marie Walker, Director of Auditing  
Kathy DuBose, Coordinator, JLAC

<b>Status Date</b> 6/30/16		<b>Report No.</b> 2016-076	<b>Report Title</b> AG Ad Valorem Tax Program	
<b>Contact Person</b> Maurice Gogarty		<b>Program</b> PTO	<b>Process</b> Ad-Valorem	<b>Phone No.</b> (850) 617-8841
<b>Activity</b> Ad-Valorem		<b>Accountability</b>		<b>Schedule</b>
		<b>Responsible Unit</b> Compliance Determination	<b>Coordinating Unit</b> TREAT	<b>Repeat Finding</b> Yes
				<b>Anticipated Completion Date</b> 6/30/2019
<b>Finding</b>		<p><b>Finding 1: Appraisal-Ratio Studies</b> As similarly noted in our report No. 2013-034, Department appraisal records did not always reasonably support property value estimates.</p>		
<b>No.</b>	1			
<b>Date</b>	1/20/16			
<b>Recommendation</b>		<p>The Department should ensure that all appraisals are adequately documented and supported by complete, accurate, consistent, and relevant analyses and conclusions.</p>		
<b>Original Response</b>		<p><b>Response:</b> The Department of Revenue (Department) agrees that it should comply with generally accepted appraisal practices, in part by producing real property appraisals that are adequately documented and supported by complete, accurate, consistent, and relevant analysis and conclusions. Data provided by the Auditor General clearly demonstrates that the quality of the Department's appraisals has significantly improved over the last five years. In this regard, the Department will continue to provide its appraisal personnel with additional training. In conjunction, the Department will continue to develop and implement sound procedures designed to improve the appraisal quality review process to ensure that appropriate appraisal standards and procedures are followed.</p>		
<b>Status Updates</b>		<p>PTO 6/30/16: In an effort to continue our efforts to improve appraisal quality, the program has initiated 3 strategies. These strategies have been approved as part of the 2016-17 program strategic plan.</p> <p>The three strategies to improve the quality of the appraisal ratio study are:</p> <ul style="list-style-type: none"> <li>- Increase the number of State Certified General Appraisers</li> <li>- Implement continuing education requirement for non-certified appraisers</li> <li>- Increase the number of appraisal reviews (Tier 2)</li> </ul>		
<input checked="" type="checkbox"/> Open <input type="checkbox"/> Management assumes risk <input type="checkbox"/> Partially complete <input type="checkbox"/> Complete pending verification by OIG <input type="checkbox"/> Complete				

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		<b>Responsible Unit</b> Compliance Determination	<b>Coordinating Unit</b> Process Manager	<b>Repeat Finding</b> No
				<b>Anticipated Completion Date</b> N/A
<b>Finding</b>		<p><b>Finding 2: Multifamily Properties</b>                  The Department analyzed some multifamily residential properties in a manner inconsistent with State law.</p>		
<b>No.</b>	2			
<b>Date</b>	1/20/16			
<b>Recommendation</b>		The Department should include multifamily residential properties in stratum 2, as required by State law, or document the legal basis upon which the property reclassifications were made for in-depth review purposes.		
<b>Original Response</b>		<p><b>Response:</b> The Department’s study of large multifamily properties with more than nine (9) living units aligns with the International Association of Assessing Officer’s (IAAO) current standard on ratio studies (2013), which appropriately categorize large apartments and apartment complexes within the income-producing property group. In addition, the Appraisal Institute also advocates for the use of differing valuation methodologies for large apartment complexes versus small multifamily residential properties. Because investor motivations and decisions are different for larger apartment properties than for smaller (2-9 living unit) multifamily properties, the Department has determined that the commercial stratum (#6) is the most appropriate stratum in which to study these properties.</p> <p>Section 195.096, F.S., does not clearly define the term “multifamily” to include larger apartment complexes and therefore neither affirm nor prohibit inclusion of these types of property among improved commercial properties (stratum 6) for purposes of in-depth study. By incorporating large apartment complexes in the commercial strata grouping (stratum 6), the Department studied apartments in 66 counties across the State in 2015, as compared to only 10 counties in 2012, whereby apartments were studied as part of stratum 2. This equates to an additional \$58.8 billion of just value that was studied in 2015 as compared to 2012. Notwithstanding the Department’s current determination, the Department may pursue statutory clarification in the future to further address this issue.</p>		
<b>Status Updates</b>		PTO 6/30/16: After further consideration we believe these properties are classified correctly. However, the program is exploring a legislative concept to clarify the issue.		
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				<b>Phone No.</b> (850) 617-8841	
<b>Activity</b> Ad-Valorem		<b>Accountability</b>		<b>Schedule</b>	
		<b>Responsible Unit</b> Compliance Determination	<b>Coordinating Unit</b> Process Manager	<b>Repeat Finding</b> No	<b>Anticipated Completion Date</b> 6/30/2019
<b>Finding</b>		<p><b>Finding 3: Review of Personal Property Assessment Rolls</b>                  Contrary to State law, personal property values reported to the Department on county assessment rolls were not included in the Department's in-depth reviews.</p>			
<b>No.</b>		3			
<b>Date</b>		1/20/16			
<b>Recommendation</b>		The Department should include personal property in its in-depth reviews as required by State law.			
<b>Original Response</b>		<p><b>Response:</b> Due to a lack of recorded selling prices and other data for tangible personal property (TPP) valuation, the Department uses the calculated real property level of assessment to infer the calculated level of assessment of tangible personal property. While it is not practicable to conduct in-depth reviews of TPP, the Program will begin to formulate a plan to perform TPP procedural reviews of all Florida counties over a two-year cycle.</p> <p>In order to accomplish these procedural reviews, the Program must first complete the update of the TPP guidelines, which is currently underway. This update initiative will require approximately 2 years to complete. Once the TPP guidelines are brought up-to-date, we will begin to implement the TPP procedural review process. We expect these reviews to begin in 2018.</p>			
<b>Status Updates</b>		<p>PTO 6/30/16: The program is planning to study TPP using procedure reviews in the future. Two related strategies have been approved as part of the 2016-17 program strategic plan.</p> <ul style="list-style-type: none"> <li>- Create a procedural review team and begin assignments.</li> <li>- Review the TPP guideline in preparation for updating those guidelines.</li> </ul>			
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<b>Activity</b> Ad-Valorem		<b>Accountability</b>		<b>Schedule</b>
		<b>Responsible Unit</b> Director's Office	<b>Coordinating Unit</b>	<b>Repeat Finding</b> No
				<b>Anticipated Completion Date</b> N/A
<b>Finding</b>		<b>Finding 4: Adjustments for the 8th Factor</b>		
<b>No.</b>	4	The Department's policy of allowing county property appraisers, when deriving just valuation, to adjust net proceeds by up to 15 percent without justification or documentation had no documented basis.		
<b>Date</b>	1/20/16			
<b>Recommendation</b>		So that county property appraisers and the Department have the information necessary to accurately calculate 8 <sup>th</sup> factor adjustments, the Legislature should consider enacting legislation to require disclosure of the data elements to be considered in 8 <sup>th</sup> factor adjustments. In the interim, the Department, in consultation with the county property appraisers, should ensure that the basis for 8 <sup>th</sup> factor adjustments made by county property appraisers are reasonable, supportable, and accurately represent the marketplace.		
<b>Original Response</b>		Response: The Department will implement any changes to the 8 <sup>th</sup> criterion adopted by the Legislature. Notwithstanding the inherent difficulty in collecting financial information related to 8 <sup>th</sup> criterion considerations, Florida's Property Appraisers have the responsibility of collecting and analyzing information necessary to determine all appropriate adjustments. As provided by Florida law, consideration of the net proceeds of sale must be made by the Property Appraiser, as with all other factors in section 193.011, F.S. Moreover, Rule 12D-8.002(4), F.A.C., specifies that if any reported 8 <sup>th</sup> criterion percentage adjustment exceeds 15 percent, the Property Appraiser is required to submit complete, clear, and accurate documentation to the Department supporting the adjustment(s).		
<b>Status Updates</b>		PTO 6/30/16: To date, there have been no changes adopted by the Legislature regarding the 8th criterion. Rule 12D-8.002(4), F.A.C., specifies that if any reported percentage adjustment exceeds 15 percent, then the Property Appraiser is required to submit complete, clear, and accurate documentation supporting the adjustment(s) to the Department. As provided by Florida law, consideration of the net proceeds of sale must be made by the Property Appraiser, as with all other factors in section 193.011, F.S.		
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<b>Activity</b> Ad-Valorem		<b>Accountability</b>		<b>Schedule</b>	
		<b>Responsible Unit</b> Compliance Assistance	<b>Coordinating Unit</b> Process Manager	<b>Repeat Finding</b> No	<b>Anticipated Completion Date</b> 6/30/2020
<b>Finding</b>		<b>Finding 5: Property Tax Administration Manual</b> Contrary to State law, the Department did not maintain a current property tax administration manual with up-to-date guidelines.			
<b>No.</b>		5			
<b>Date</b>		1/20/16			
<b>Recommendation</b>		The Department should continue efforts to maintain a current Manual and annually update guidelines, as appropriate, in accordance with State law.			
<b>Original Response</b>		<b>Response:</b> As noted, the Department will update the Manual of Instructions for Property Appraisers and other officials connected with the administration of property taxes pursuant to the requirements of section 195.062, F.S. The Department will continue efforts to maintain a current Manual of Instructions and periodically update all of the manual's guidelines, as appropriate, in accordance with State law. The Program has already begun work on a draft of the real property guidelines and anticipates publication of said draft within approximately one year. However, completion of the Manual of Instructions in its entirety will require the hiring of additional personnel with the requisite appraisal, technical, and legal expertise. The expected delivery date of a completed Manual of Instructions is planned for 2019.			
<b>Status Updates</b>		PTO 6/30/16: The program plans to update the guidelines included in the Manual of Instructions in 2016-17 and has included a review of the guidelines as part of its 2016-17 program strategic plan.			
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Maurice Gogarty	PTO	Ad-Valorem	(850) 617-8841	
<b>Activity</b>	<b>Accountability</b>		<b>Schedule</b>	
Ad-Valorem	<b>Responsible Unit</b>	<b>Coordinating Unit</b>	<b>Repeat Finding</b>	<b>Anticipated Completion Date</b>
	Compliance Assistance	Process Manager	No	N/A
<b>Finding</b>		Finding 6: Administration of the Certification Program Trust Fund		
<b>No.</b>	6	Department procedures for the administration of the Certification Program Trust Fund needed improvement.		
<b>Date</b>	1/20/16			
<b>Recommendation</b>	The Department should enhance procedures to provide for an adequate separation of duties related to Trust Fund collections. Additionally, the Department should ensure that service charges are allocated to accounts within the Trust Fund based on the proportion of applicable program revenues deposited and that all necessary adjustments are made to the accounts for erroneous service charge allocations. Also, the Department should establish an appropriate fee schedule for each program account based on anticipated expenses and overall cash balance needs for each program account.			
<b>Original Response</b>	<p><b>Response:</b> The Department currently has in place procedures that provide for an adequate separation of duties related to Trust Fund collections. These procedures are outlined in two procedural documents: "Monthly Reports Procedures – How to Run Monthly Reports," and "Mail Processing Workflow Chart."</p> <p>The Department will take the necessary steps to ensure that all service charges are properly allocated to accounts within the Trust Fund based on the proportion of applicable program revenues deposited. In addition, the Department will make certain that all necessary adjustments are made to account for any erroneous service charge allocations.</p> <p>Last, the Department will establish annually an appropriate fee schedule for each program account based on anticipated expenses, and determine cash balance targets for each program account.</p>			
<b>Status Updates</b>	PTO 6/30/16: <ol style="list-style-type: none"> <li>1) Complete. The program has in place procedures that provide for an adequate separation of duties related to Trust Fund collections</li> <li>2) Complete. The program will take the necessary steps to ensure that all service charges are properly allocated to accounts within the Trust Fund based on the proportion of applicable program revenues deposited</li> <li>3) Ongoing. The program continues to strive to establish (annually) an appropriate fee schedule for each program account based on anticipated expenses, while determining overall cash balance needs for each program account.</li> </ol>			
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