



January 16, 2020

MEMORANDUM

TO: Jim Zingale, Executive Director

FROM: Sharon Doredant, Inspector General 

SUBJECT: Six-Month Update on Auditor General Report No. 2020-003, Department of Revenue – Administration of the Ad Valorem Tax Program

As required by *section 20.055(6)(h), Florida Statutes*, attached is the Department's six-month status update for corrective actions taken in response to Auditor General Report No. 2020-003, Department of Revenue – Administration of the Ad Valorem Tax Program.

The Office of Property Tax Oversight (PTO) provided updates on actions taken to improve several selected administrative activities that resulted in the following seven findings:

Finding 1: The Department did not adequately ensure that ratio study samples were representative of the population.

Status: The Department has made system programming changes that are expected to increase representativeness. In addition, beginning with the 2020 in-depth study, the Department has changed its methodology for reaching the minimum number of sales in each group.

Finding 2: The Department's method of sub-stratifying studied strata into value group subclassifications magnifies the impact of the nonrepresentative ratio study samples in higher value groups, contrary to the intent of State law.

Status: The Department has changed its in-depth study grouping methodology for the 2020 in-depth study to four groups of equal value. In addition, changes were made to resolve the issue of too few samples in group 4 that this methodology creates.

Finding 3: The Department did not utilize the median level of assessment (LOA) for county assessment roll evaluation and approval purposes as recommended by the International Association of Assessing Officers *Standard on Ratio Studies* nor compute certain statistical measures required by State law.

Status: The Department has modified the basis for roll approval for both in-depth and non-in-depth rolls. In addition, the Department developed and

presented a legislative concept to clarify PTO's responsibilities for calculating an overall confidence level, for the weighted mean and median, to the Florida Cabinet on September 24, 2019. The Cabinet approved the concept to move forward in the 2020 legislative session.

Finding 4: Department records did not evidence the basis for reducing from \$1.3 billion to \$635 million the assessed value of a railroad company property.

Status: In the future, the Department will explore all opportunities to provide a more robust explanation for changes in the assessed railroad property values that occur as a result of the informal conferences.

Finding 5: The Department made sale qualification changes for one county without sufficient, credible evidence from the county justifying the changes.

Status: Updated Sale Qualification Study procedures will be implemented by the Department for the 2020 Sale Qualification Study. The procedures include a second-level reviewer for all documented evidence for samples with Real Property Transfer Codes 30-43 before credit is given to the county.

Finding 6: Contrary to State law, and as similarly noted in our report No. 2016-076, Department in-depth reviews did not include personal property values reported on county assessment rolls.

Status: The Department developed and presented a legislative concept to clarify PTO's responsibilities for studying Tangible Personal Property to the Florida Cabinet on September 24, 2019. The Cabinet approved the concept to move forward in the 2020 legislative session.

Finding 7: Although required by State law, the Department did not maintain a current property tax administration manual. A similar finding was noted in our report No. 2016-076.

Status: The Department has an action plan for addressing this finding and expects revisions to be completed by December 31, 2022.

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

SD/tc

Attachment

cc: Andrea Moreland, Deputy Executive Director
Clark Rogers, Interim Chief of Staff
Patrick Creehan, PTO Interim Program Director
Kathy Dubose, Joint Legislative Auditing Committee

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	Administration of the Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	Yes
				Anticipated Completion Date
				6/30/20
Finding		The Department did not adequately ensure that ratio study samples were representative of the population.		
No.	1			
Date				
Recommendation		We recommend that Department management make efforts to maximize the representativeness of ratio study samples.		
Original Response		<p>Representativeness is an important consideration in sales ratio study design. In its Standard on Ratio Studies, the International Association of Assessing Officers (IAAO) states, "The design and conduct of ratio studies requires decisions that maximize representativeness within the constraints of available resources". Section 195.096(2)(c), Florida Statutes (F.S.), requires the Department to 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". In this section it 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". (Emphases added)</p> <p>In accordance with section 195.096(2) (c), F.S., the Department relies primarily on assessment-to-sales-ratio studies and, per IAAO guidelines, augments sales with appraisals to produce an adequate sample size when necessary. The Department further augments the samples size in strata 1 and 4 by using time-trended sales. For stratum 6, Uniform Standards of Professional Appraisal Practice (USPAP) - compliant appraisals are performed to meet minimum acceptable sample sizes. These steps to augment samples have corrected sample size issues noted in prior Auditor General audit findings.</p> <p>In preparing this response, the Department consulted with our expert in the field of assessment administration practices. Among other credentials, the expert was the primary author of the IAAO's Standard on Ratio Studies. The report's comments concerning representativeness has been overstated because the comments are based on raw data that has not taken into consideration the:</p> <ul style="list-style-type: none"> • Auditor General's use of 4 groups of equal parcel count for its analysis. Since the Auditor General is recommending 4 groups of equal value the data analysis performed by the Auditor General should align with its recommendations. • Heterogeneous nature of stratum 6 in terms of use codes; there are 40 use codes within the commercial/industrial stratum and growth rates for one property type cannot be applied to all property types within this group. The Auditor General found that most issues noted were with stratum 6. 		

CORRECTIVE ACTION PLAN

- Issues with geographic hot spots within some counties where growth rates cannot be applied countywide such as coastal communities to noncoastal, rural areas.
- Assessment growth rates for post-disaster areas cannot be applied to growth rates in non-disaster areas.
- Anomalies occurring at the sub-group level with the data that, when verified and corrected, improve the alternate ratio.
- Lack of support from the Just Value Change report which shows differences in growth rates between use codes, strata, and market areas.

In addition to using the alternate ratio and percent change analysis, and following IAAO recommendations, the department has put into place numerous techniques to minimize representativeness issues. The Department:

- Filters out all new construction which is overrepresented in most strata
- Isolates individual properties comprised of the lower 5% of value (Group 5)
- Isolates single properties comprised of 15% or more of the stratum value (Group 6)
- Weights the data, by group
- Uses time-trended sales in strata 1 and 4 to increase the sample size
- Filters out sale change codes on sales that are significantly different on the date of sale as compared to the date of assessment to eliminate a mismatch of property characteristics
- Filters out other parcels not appropriate to ratio studies such as:
 - Outliers (ratios <30% and >170%)
 - Multiparcel sales
 - Sales where there is a mismatch in codes and property characteristics (Vacant & Improved codes)
 - Parcels having \$0.00 just value
 - Strata not reaching a 5% of assessed value threshold
 - Parcels with residential common elements

For appraisal ratio analysis, samples are randomly chosen and are analyzed for representativeness based on:

- Value Groups
- Use Codes
- Market Areas
- Effective Year Built
- Square Foot Range
- Improvement Quality

(Over-representativeness of samples within these groups cause a resampling of the data.)

Since rolls are submitted July 1st and roll approval follows shortly thereafter, turning down a roll for unsubstantiated representativeness issues is not practical. Florida law provides the post-audit review process as the mechanism to handle these and other systemic issues. Counties are notified of the issue first via an advisory in the Post-Audit Notification, aid and assistance is offered, and if there is no improvement, the defect process is invoked.

CORRECTIVE ACTION PLAN

	<p>In 2016, the Department identified 23 counties with strata having Alternate Ratio issues. However, upon further review using the Just Value Change report, only one county had a supportable, significant problem. No review notices, defect letters, and/or administrative orders were issued relating to the 2016 rolls. However, the Department issued a post-audit report (PAR) advisory to the one county per section 195.097, F.S.</p> <p>Review notes, defect letters, and administrative orders are specific statutory actions. These actions are not taken until we have a confirmed systemic problem that establishes one or more classes or other strata of property is listed on the assessment rolls in a manner inconsistent with the requirements of law. Before an issue is confirmed, the Department communicates problems to the property appraiser in the PAR document that each county receives after the roll approval process. This notification establishes the Department has noted a potential issue and has communicated it to the county.</p> <p>While the Department believes reasonable steps have been taken to ensure representativeness of the in-depth study, the Department will continue to work on ways to improve representativeness of tax roll data. If additional programming is required to add new analysis or reports, the changes would not take effect until the 2022 tax year.</p>
<p>Status Updates</p> <p><input type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input checked="" type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending OIG verification</p> <p><input type="checkbox"/> Complete</p>	<p>As noted, the Department has put into place numerous techniques to improve representativeness over the years. For appraisal ratio studies, samples are randomly chosen and tested for representativeness. This is done at the beginning of each in-depth study. Beginning in 2020, for appraisal ratio studies, the Department has put into place programming to change from four groups of equal number to four groups of equal value and to allow regrouping when an adequate number of samples cannot be chosen to fill four groups. This change is expected to increase representativeness. Sales, however, occur according to market forces and cannot be selected at the beginning of the study. However, to further improve representativeness, beginning with the 2020 in-depth study, the Department will no longer use the 'latest month' methodology to reach the minimum number of sales in each group. The Department will use either the fourth quarter sales, if sufficient sales are present, or full year. In addition, the Department will also regroup sales if the acceptable minimum of sales is not sufficient for four groups. The Department has reevaluated its procedures for defecting rolls not in substantial compliance with the law and to provide more aid and assistance as statutes provide when there are representative issues which do not reach the defect level.</p>

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	Administration of the Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	Yes
				Anticipated Completion Date
				6/30/20
Finding		<p>The Department's method of sub-stratifying studied strata into value group sub-classifications magnifies the impact of the non-representative ratio study samples in higher value groups, contrary to the intent of State law.</p> <p>We recommend that Department management take steps to ensure that the sub-stratification of strata maximizes the representativeness of ratio study samples as required by State law.</p>		
No.	2			
Date				
Recommendation				
Original Response		<p>In its 2013-034 report, based on records from the 2010 and 2011 tax years, the Auditor General review indicated that the Department had difficulty populating all value groups, particularly high-value groups (group 4). The Auditor General observed, "The reliability of the statistical results for the 2010 and 2011 in-depth studies was diminished because these high value groups were not represented."</p> <p>The Auditor General found the lack of samples in group 4 primarily in stratum 6 of smaller counties where the number of commercial properties is limited. The issue is not as prevalent in strata 1 and 4 since the Department began using time-trended sales for these property types. Following the sampling formula for stratum 6 in smaller counties sometimes required sample sizes larger than available samples, even if all group 4 properties had been appraised because of high coefficient of variation values.</p> <p>The Auditor General's recommendation in the 2013-034 report was "DOR should continue to improve its sampling procedures to acquire the desired number of samples per value group to meet minimum sample sizes. Also, to achieve the targeted confidence interval or margin of error objectives, every value group should contain an adequate number of sample items, using sales, appraisals, or a combination of both."</p> <p>In 2013, based on the Auditor General's recommendation, the Department changed the grouping methodology from four groups of equal value to four groups of equal number. In the 2013-034 report, the Auditor General noted, "As a result of these past difficulties of populating all value groups, particularly some of the high value groups, DOR revised its methodology in determining which parcels are assigned to each value group. The new methodology, which is planned to be implemented in the 2013 in-depth reviews, is expected to resolve many of the problems identified above."</p> <p>The grouping change in 2013 resolved the issue of insufficient sales in value group 4, and the Department has continued this grouping protocol. However, the weight of group 4 can skew the overall stratum level of assessment. Because of the diversity of counties across the state, no one method fits all data sets and each method presents both strengths and weaknesses.</p>		

CORRECTIVE ACTION PLAN

	<p>The 2019 tax rolls deadline for submission is July 1, 2019. Consequently, any changes to address these issues will not occur on the 2019 roll.</p> <p>However, the Department will change the grouping methodology back to four groups of equal value and will implement changes to resolve the issue of too few samples in group 4 this methodology creates, (e.g., reducing to three groups when sufficient samples are not possible in group 4). In addition, where necessary the Department will augment the sample size with additional appraisals. These changes may be available for the 2020 roll approval cycle.</p>
<p>Status Updates</p> <p><input type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input checked="" type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending OIG verification</p> <p><input type="checkbox"/> Complete</p>	<p>The Department has changed its in-depth study grouping methodology for the 2020 in-depth study to four groups of equal value. Appraisal samples for the 2020 in-depth study were produced based upon the new methodology. In addition, changes were made to resolve the issue of too few samples in group 4 that this methodology creates, (e.g., reducing to three groups when sufficient samples are not possible in group 4). The Oracle programming has been completed and the change is now in effect.</p>

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	Administration of the Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	No
		Anticipated Completion Date		
		6/30/20		
Finding		<p>The Department did not utilize the median level of assessment¹ (LOA) for county assessment roll evaluation and approval purposes as recommended by the International Association of Assessing Officers <i>Standard on Ratio Studies</i> nor compute certain statistical measures required by State law.</p>		
No.	3			
Date				
Recommendation		<p>We recommend that Department utilize the median LOA for assessment roll evaluation and approval purposes and compute the statistical measures required by State law.</p>		
Original Response		<p>Sections 195.096(2) (c) and (f), F.S., specifies that the Department calculates at a 95 percent confidence interval the mean, weighted mean, and median based on sample data. The Department calculates the weighted mean based on the Department-estimated population market value; we do not calculate the median for the whole roll or an overall confidence interval.</p> <p>Ratio study statistics are used for two purposes: performance monitoring and indirect equalization of public-school funding. Section 195.096(2), F.S., addresses statistical analysis of rolls for roll approval (performance monitoring), and s. 195.096(3), F.S., addresses using statistical analysis for the Department of Education's Florida Education Finance Program formula for indirect equalization of education funding for public schools.</p> <p>For performance monitoring, roll approval decisions are based on the level of assessment (LOA) for each stratum studied, not the roll as a whole. An overall LOA, however, is necessary for the funding formula. As the Auditor General pointed out, the median is recommended for performance monitoring, but the weighted mean is recommended for indirect equalization purposes. The Department does not calculate a confidence interval for the countywide level of assessment. There is no known formula for a countywide confidence interval for the median, nor does the IAAO have a standard for a countywide confidence interval for either the median or the weighted mean.</p> <p>After reviewing IAAO material and consulting with the Department's expert on assessment administration practices (who was the primary author of the IAAO's <i>Standard on Ratio Studies</i>), the Department did not find a recommended methodology for calculating a countywide confidence interval for either the weighted mean or the median. In addition, Auditor General staff did not know of, nor suggest, a recognized method of calculating these statistics.</p> <p>Beginning in 2020, the Department will continue to produce all roll statistics but will rely primarily on the median, at the stratum level, for roll approval purposes. As required by</p>		

¹ The level of assessment is the ratio of assessed values to market values.

CORRECTIVE ACTION PLAN

	<p>law, the Department will continue to produce an overall level of assessment based on the weighted mean for indirect equalization purposes.</p>
<p>Status Updates</p> <p><input type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input checked="" type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending OIG verification</p> <p><input type="checkbox"/> Complete</p>	<p>The Department has modified the basis for roll approval for both in-depth and non-in-depth rolls. For performance monitoring purposes, beginning with the 2020 preliminary roll, the Department will approve in-depth assessment rolls based on the median level of assessment for each stratum studied. The minimum acceptable level of assessment is 0.90.</p> <p>The Department will approve non-in-depth assessment rolls based on an overall value-weighted median level of assessment for all studied strata. The minimum acceptable level of assessment is 0.90.</p> <p>The Department will continue to calculate the overall value-weighted mean for both in-depth and non-in-depth rolls and will transmit that information to the Department of Education for indirect equalization of K-12 schools per section 195.096, F.S. The minimum acceptable levels of assessment for the overall value-weighted mean for both in-depth and non-in-depth rolls is also 0.90.</p> <p>The Department developed and presented a legislative concept to clarify the Department's responsibilities for calculating an overall confidence interval, for the weighted mean and median, to the Florida Cabinet on September 24, 2019. The Cabinet approved the concept to move forward in the 2020 legislative session.</p>

CORRECTIVE ACTION PLAN

Status Date	Report No.	Report Title		
12/20/19	2020-003	Administration of the Ad Valorem Tax Program		
Contact Person	Program	Process	Phone No.	
	PTO	Ad Valorem	617-8841	
Activity	Accountability		Schedule	
Ad Valorem	Responsible Unit	Coordinating Unit	Repeat Finding	Anticipated Completion Date
	Compliance Determination	TREAT		12/31/2020
Finding	Department records did not evidence the basis for reducing from \$1.3 billion to \$635 million the assessed value of a railroad company property.			
No.	4			
Date				
Recommendation	We recommend that Department management adequately document the basis for changes in assessed railroad property values resulting from informal conferences.			
Original Response	<p>The Department provided documentation supporting the basis for compromise of the assessed railroad property value resulting from the Informal Conference process held in conformance with the law.¹ The documentation provided by the Department was consistent with what has been available during prior Performance Audits of the Administration of Ad Valorem Tax Program without issue.²</p> <p>The supporting documentation provided by the Department included information submitted by the affected taxpayer during the Informal Conference held as required by law. The Informal Conference process encompassed a review of documents submitted by the taxpayer to the Department in furtherance of their Annual Report and Return (e.g. financial statements, annual reports, inventory of real property schedules, etc.), as well as the Department’s appraisal report and supporting documentation. It also included review and consideration of documentation presented to the Department by the affected taxpayer at the Informal Conference.</p> <p>The affected taxpayer raised several issues (factual and legal) in presenting their position to the Department at the Informal Conference including those related to income projections, operating statistics, and prior year values. The Department recognized these issues as being germane to the proposed assessment and duly considered them in accordance with law. The Department provided this information in support of the basis for the compromise.</p> <p>In addition, the Department provided documentation from prior court proceedings in Federal court that specifically identified substantive legal issues and substantial litigation risks associated with these special types of assessments that provide a continuing basis to support a compromise of subsequent assessments at Informal Conference. The prior court proceeding documentation provided was from the following matters involving CSX Transportation (“CSXT”) v. Florida Department of Revenue (“Department”) litigated in the U.S. District Court, Northern District of Florida:</p> <ul style="list-style-type: none"> • <u>Case No. 4:03-cv-00169-RH-WCS</u> 			

¹ See section 193.085, F.S., and Chapter 12D-2, F.A.C.

² Auditor General Performance Audit Nos.: 2004-177, 2007-037, 2010-013, and 2013-034.

CORRECTIVE ACTION PLAN

- On May 30, 2003, CSXT filed a Complaint and Motion for Temporary Restraining Order and/or Preliminary Injunction against the Department. CSX challenged the Departments proposed 2003 tax year assessment (\$722,802,752) arguing it was discriminatory and violated federal and state law.
- CSXT asserted the Department's assessment was unlawful and constituted an unreasonable and unjust discrimination against, and an undue burden on, interstate commerce in violation of federal law.
- The case necessitated the procurement, use and payment for additional outside legal counsel as well as expert witness services in defense of the assessed railroad property valuation. It also involved substantial litigation related discovery and motion practice, including efforts to exclude witness testimony on behalf of the Department.
- The case litigation continued until a Judgment was entered by the Honorable Robert Hinkle on October 25, 2004, requiring both parties to abide by the Consent Order of Settlement and Dismissal entered on October 22, 2004.
- As part of the settlement, the parties resolved the disputed valuation and equalization issues by agreeing that the maximum aggregate assessed value of CSX's railroad operating property in Florida (after consideration of all exemptions, deductions and equalization) as of January 1, 2003, was \$488,000,000; as of January 1, 2004, was \$478,000,000; as of January 1, 2005, was \$468,000,000.
- Case No. 4:04-cv-00179-RH-WCS:
 - On June 1, 2004, CSXT filed a Complaint Seeking Injunctive and Declaratory Relief from Ad Valorem Tax Discrimination against the Department pertaining to the proposed 2004 tax year assessment.
 - This was additional litigated case matter initiated while Case No. 4:03-cv-00169-RH-WCS was already proceeding. Similar to the aforementioned case, CSXT asserted the Department's assessment was unlawful and constituted an unreasonable and unjust discrimination against, and an undue burden on, interstate commerce in violation of federal law.
 - The case matter was resolved collectively with Case No. 4:03-cv-00169-RH-WCS identified above.
- Case No. 4:06-cv-00342-SPM-WCS
 - On July 18, 2006, CSXT filed a Complaint Seeking Injunctive and Declaratory Relief from Ad Valorem Tax Discrimination against the Department pertaining to the proposed 2006 tax year assessment. CSX challenged the Departments proposed 2006 tax year assessment (\$795,984,853) arguing it was discriminatory and violated federal and state law.
 - Similar to the previously noted case matters, CSXT asserted the Department's assessment was unlawful and constituted an unreasonable and unjust discrimination against, and an undue burden on, interstate commerce in violation of federal law.

CORRECTIVE ACTION PLAN

	<ul style="list-style-type: none"> ○ Similar to the previously noted case matters, this involved substantial litigation related discovery and motion practice, including efforts to exclude witness testimony on behalf of the Department. ○ The case litigation continued until a Consent Order of Settlement and Dismissal was entered by the Honorable Stephen P. Mickle on March 20, 2008. ○ As part of the settlement, the parties resolved the disputed valuation and equalization issues by agreeing that the maximum aggregate assessed value CSX's railroad operating property in Florida (after consideration of all exemptions, deductions and equalization) as of January 1, 2006, was \$515,000,000; as of January 1, 2007, was \$525,000,000; and as of January 1, 2008, was \$520,000,000. ● <u>Case No. 4:07-cv-00462-RH-WCS</u> <ul style="list-style-type: none"> ○ On October 31, 2007, CSXT filed a Complaint Seeking Injunctive and Declaratory Relief from Ad Valorem Tax Discrimination against the Department pertaining to the proposed 2007 tax year assessment (\$1,019,574,118). ○ This was additional litigated case matter initiated while Case No. 4:06-cv-00342-SPM-WCS was already proceeding. Similar to the aforementioned case, CSXT asserted the Department's assessment was unlawful and constituted an unreasonable and unjust discrimination against, and an undue burden on, interstate commerce in violation of federal law. ○ The case litigation continued until a Consent Order of Settlement and Dismissal was entered by the Honorable Robert Hinkle on March 27, 2008. As part of the settlement, the parties resolved the disputed valuation and equalization issues by agreeing that the maximum aggregate assessed value CSX's railroad operating property in Florida (after consideration of all exemptions, deductions and equalization) as of January 1, 2007, was \$525,000,000; and as of January 1, 2008, was \$520,000,000. <p>The Department provided all of the aforementioned documentation in support of the compromise in the assessed railroad property value resulting from the Informal Conference process. The Department believes it was appropriate pursuant to s. 193.085, F.S. and Chapter 12D-2, F.A.C. As noted above, the previous litigation continues to be a factor in resolving subsequent assessments on a substantially consistent basis so that a taxpayer is afforded their due process rights without the necessity of additional litigation.</p>
<p>Status Updates</p> <p><input checked="" type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending</p> <p>OIG verification</p> <p><input type="checkbox"/> Complete</p>	<p>The Department will explore all opportunities to provide a more robust explanation for changes in the assessed railroad property values that occur as a result of the informal conferences.</p>

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	Administration of the Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	No
				Anticipated Completion Date
				6/30/20
Finding		The Department made sale qualification changes for one county without sufficient, credible evidence from the county justifying the changes.		
No.	5			
Date				
Recommendation		We recommend that Department management ensure that all changes to sale qualification are supported by sufficient, credible evidence from the county.		
Original Response		<p>The annual Sale Qualification Study (SQS) is required by section 195.0995, F.S. It covers all 67 counties, and in 2016, approximately 770,000 sales transactions were recorded in the state. The Department's study randomly selects transactions for each county based on a sampling formula. In the 2016 study, the Department reviewed qualification decisions for 3,850 sale transactions.</p> <p>During the SQS, the Department's reviewers determine, on the face of the deed document, whether the transaction should be qualified or disqualified for use in the sales ratio study based on Department specifications. The reviewer's qualification decisions are compared with the decisions the county made, and, where there is a mismatch, the Department requires further documentation from the county. If the county has adequately documented their decision, and the Department concurs with the reason for the county decision, the county gets credit for that transaction. The statute requires a 90 percent pass rate.</p> <p>In its review of the 2016 SQS, the Auditor General studied four counties, which included 160 randomly selected transactions. For those transactions, where a discrepancy existed, the Auditor General reviewed the documentation the Department accepted for 15 samples. The Auditor General's review determined that in one county the documentation provided to support changes of two sales, where the property appraiser disqualified the sales, was insufficient.</p> <p>For one of the two, the documentation was a phone call from the property appraiser's office. While the property appraiser's reason to disqualify the sale was valid, the documentation did not meet the Department's documentation requirement and the county should not have been given credit for this transaction.</p> <p>For the change made to the second sale noted, the Department deems the decision to change the code was based on credible evidence, which included a written attestation from a member of the property appraiser's staff. The written attestation is included in the study documentation. With the inclusion of this sample, the pass rate of the county is 90 percent.</p> <p>Section 195.097, F.S. states in part, "...the Department shall issue a notice to any property appraiser who the executive director has determined has one or more classes or</p>		

CORRECTIVE ACTION PLAN

	<p><i>other strata of property listed on the assessment rolls in a manner inconsistent with the requirement of law or is otherwise not assessing in accordance with law". After reviewing all transaction decisions for this county, the Department found no reason to believe that, based on the study, one or more classes of property listed on the assessment rolls was assessed inconsistently with the requirements of law.</i></p> <p>The Department operates on a continual cycle of improvement and will continue to make improvements to the SQS, including clarifying the documentation standards in the SQS procedure documents.</p>
<p>Status Updates</p> <p><input type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input checked="" type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending OIG verification</p> <p><input type="checkbox"/> Complete</p>	<p>The Department has updated its Sale Qualification Study procedures to include a second-level reviewer for all documented evidence for samples with Real Property Transfer Codes 30-43 before credit is given to the county. This secondary review process, by the TREAT supervisor, will begin with the 2020 Sale Qualification Study.</p>

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	Administration of the Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	Yes
				Anticipated Completion Date
				6/30/20
Finding		Contrary to State law, and as similarly noted in our report No. 2016-076, Department in-depth reviews did not include personal property values reported on county assessment rolls.		
No.	6			
Date				
Recommendation		We again recommend that Department management ensure that in-depth reviews include personal property as required by State law.		
Original Response		<p>Section 195.096, F.S., states in relevant part: "(1) The assessment rolls of each county shall be subject to review by the Department of Revenue. (2) The department shall conduct, no less frequently than once every 2 years. An in-depth review of the assessment rolls of each county. The department need not individually study every use-class of property set forth in s. 197.073, but shall at a minimum study the level of assessment in relation to just value of each classification specified in subsection (3). Such in-depth review may include proceedings of the value adjustment board and the audit or review of procedures used by the counties to appraise property." (emphasis added)</p> <p>The Tangible Personal Property (TPP) tax is administered by 67 locally elected county property appraisers. To assess TPP at market value, Florida law requires businesses within each of the 67 counties to submit to their respective property appraisers an annual return listing the original cost of each item of TPP, the year the TPP was acquired, and other relevant information. Property appraisers review the information provided on the return and assess a value on the submitted TPP. For the 2016 tax year, property appraisers processed more than 1.2 million TPP returns from eligible businesses. The TPP roll accounts for nearly 7 percent of total statewide taxable value. The county TPP roll is submitted to the Department of Revenue by July 1 of each year for review.</p> <p>In-Depth Review Prior to FY 08-09, the Department conducted in-depth reviews for half of the counties' TPP rolls on an alternating two-year cycle. To perform this function, a dedicated team of DOR auditors conducted audits of a random sample of businesses and the corresponding TPP annual returns. These audits were in addition to audits performed by property appraisers.</p> <p>In FY 08-09, following significant changes to the property tax system due to the passage of four constitutional amendments and major legislative initiatives, the Legislature approved a budget amendment which reassigned the dedicated TPP positions to conduct field work relating to real property. The realignment of staff was consistent with legislative policy and allowed the Department to make the most efficient and effective use of existing staff resources.</p>		

CORRECTIVE ACTION PLAN

The Legislature has not restored the dedicated TPP positions in subsequent budgets. Consequently, in-depth reviews of the property appraisers TPP assessments have not been performed for more than a decade. Each individual property appraiser has the constitutional responsibility to assess TPP in their county at just value and the Department accepts the property appraisers just value as being in substantial compliance with the law.

With respect to relative level of assessment (LOA) for the TPP roll, the Department uses the real property LOA when certifying to the Department of Education. The Department's practice in this regard is consistent with all provisions of section 195.096, F.S., which limits the Department's standard of care in reviewing assessment rolls to: "all practicable steps," "the greatest extent practicable," "fullest extent practicable," and "the best information available."

TPP Compliance Reviews

This reprioritization required the Department to revise oversight roles relating to TPP reviews and scale down the review. Although the funding for the TPP positions was shifted, the Department continues to perform the compliance review below on TPP roll submissions:

- A determination of the use of the proper electronic submission of the roll.
- A determination of the use of the necessary data fields and format specified by the Department. The roll is manually reviewed for underpopulated fields (e.g. physical address) and electronically reviewed for 13 specific compliance checks, including but not limited to:
 - Verifying that the reported just values, assessed values, and total exemptions correspond correctly to the total reported taxable values.
 - Verifying that each account is reported with a valid industry code.
 - Checking for required fields that are left blank.
 - A comparison of the previously submitted roll to the current roll to check for extraordinary changes in number of accounts reported, number of exemptions, as well as the reported just, assessed, and taxable value fields.

In addition, the Department:

- Reviews the county's recapitulation reports to determine if the values reported on the TPP roll match those on the recapitulation reports. These crosschecks include whether reported values (Just, Assessed, and Taxable) and exemption amounts, and account counts match the values on the TPP roll.
- Reviews the county's recapitulation reports to determine if the central assessment real and tangible values reported on the TPP roll match those on the recapitulation reports and the assessment information provided by the DOR central assessment team.
 - These crosschecks include whether reported values (Just, Assessed, and Taxable), and exemption amounts match the values on the TPP roll. The value check between the recapitulation report and the central assessment team information is performed on all counties with central assessment value. The check of the TPP roll is done with counties reporting central assessment TPP for railroads and private car lines on the TPP roll.

CORRECTIVE ACTION PLAN

	<p>Although the compliance review provides a level of confidence in the practices of property appraisers to include TPP on their rolls, it does not fully meet the standards of an in-depth study consisting of a “review of procedures” that will result in “statistical or analytical measures” as noted in section 195.096, F.S.</p> <p>The Department’s responsibility is to ensure the data on each roll is in the manner and form prescribed and that each roll complies with all the appropriate requirements of law relating to just value, pursuant to section 193.1142, F.S.</p> <p>Court Ruling and Statutory Reference In other consideration, TPP assessment and review was part of several matters litigated in <i>Hylton v. Department of Revenue, State of Florida (Case No. 97-4584, Second Judicial Circuit In And For Leon County, Florida)</i>. In its Amended Order on Defendant’s Motion For Summary Judgment, the Court stated:</p> <p style="padding-left: 40px;">“DOR is not required to specifically audit tangible personal property in its statutorily mandated in-depth review of county assessment rolls because section 195.096(2), Florida Statutes, provides that [DOR] need not individually study every use-class of property set forth in s. 193.073 but shall at a minimum study the classification specified in subsection (3).” (emphasis added)</p> <p>The classifications specified in section 195.096(3), F.S., do not specifically list provisions related to tangible personal property and include:</p> <ol style="list-style-type: none"> 1. Residential property that consists of one primary living unit, including, but not limited to, single family residences, condominiums, cooperatives, and mobile homes 2. Residential property that consists of two or more primary living units 3. Agricultural, high-water recharge, historic property used for commercial or certain nonprofit purposes, and other use-valued property 4. Vacant lots 5. Nonagricultural acreage and other developed parcels 6. Improved commercial and industrial property 7. Taxable institutional or governmental, utility, locally assessed railroad oil, gas and mineral land, subsurface rights, and other real property
<p>Status Updates</p> <p><input type="checkbox"/> Open</p> <p><input type="checkbox"/> Management assumes risk</p> <p><input checked="" type="checkbox"/> Partially complete</p> <p><input type="checkbox"/> Complete pending OIG verification</p>	<p>The Department continues to assert Tangible Personal Property (TPP) does not have to be studied in-depth once every two years because the program was defunded by the Florida Legislature in fiscal year 2008-2009. However, the Department developed and presented a legislative concept to clarify the Department’s responsibilities for studying TPP to the Florida Cabinet on September 24, 2019. The Cabinet approved the concept to move forward in the 2020 legislative session.</p>

CORRECTIVE ACTION PLAN

<input type="checkbox"/> Complete	
-----------------------------------	--

CORRECTIVE ACTION PLAN

Status Date		Report No.	Report Title	
12/20/19		2020-003	AG Ad Valorem Tax Program	
Contact Person		Program	Process	Phone No.
		PTO	Ad Valorem	617-8841
Activity		Accountability		Schedule
Ad Valorem		Responsible Unit	Coordinating Unit	Repeat Finding
		Compliance Determination	TREAT	
				Anticipated Completion Date
				12/31/2022
Finding		Although required by State law, the Department did not maintain a current property tax administration manual. A similar finding was noted in our report No. 2016-076.		
No.	7			
Date				
Recommendation		We recommend that Department management continue efforts to update the <i>Manual</i> and maintain the <i>Manual</i> in accordance with State law.		
Original Response		<p>The Department has a statutory requirement to prepare and maintain a current manual of instructions ("Manual") for property appraisers and other officials connected with the administration of property taxes. The law¹ requires the Manual to contain:</p> <ul style="list-style-type: none"> 1-Rules and regulations; 2-Standard measures of value; and 3-Forms and instructions concerning the use of forms and maps. <p>The law² also authorizes the Department to include any other information which it deems pertinent or helpful in the administration of taxes in the Manual.</p> <p>The report accurately states that the Manual is not current, and that the Department should continue its efforts to update the Manual and maintain it in accordance with State law.</p> <p>Currently, the online Manual for property appraisers contains the following information required by law:</p> <ul style="list-style-type: none"> • Standard Measures of Value <ul style="list-style-type: none"> ○ Florida Real Property Appraisal Guidelines (2002) ○ Classified Use Real Property Guidelines (1982) ○ Tangible Personal Property Appraisal Guidelines (1997) • Cadastral Mapping Guidelines (Part of the required forms and instructions concerning the use of forms and maps) <p>Additionally, the Department has made the following document available online for property appraisers to help and assist in their administration of property taxes:</p> <ul style="list-style-type: none"> • Uniform Market Area Guidelines (2009)³ 		

¹ Section 195.062(1), F.S.

² Section 195.062(2), F.S.

³ Unlike Standard Measures of Value, the Uniform Market Area Guidelines ("UMAG") are not appraisal guidelines. UMAG are specifically required by sections 193.114 and 193.1142, F.S. They provide guidance to property appraisers for placing market area codes on real property assessment rolls.

CORRECTIVE ACTION PLAN

Corrective Action Plan

Provided below is the Department's corrective action plan to bring the manual of instructions for property appraisers into compliance with statutory requirements.

1. Rules and Regulations: The Manual is required to contain all applicable rules and regulations. The Department's rules governing property tax oversight are contained in Rule Chapters 12D and 12-9, F.A.C. While the Department has adopted rules addressing property tax administration, the rules are not specifically identified on the webpage that contains the Manual. The Department has updated its website to clearly reference the Department's rules relating to property tax oversight.
2. Standard Measures of Value: The Manual is required to contain standard measures of value. The standard measures of value provide guidelines for the valuation of property and methods for the property appraisers to use in arriving at just valuation for particular types of property. By law⁴, they do *not* have the force and effect of rules. They are to be used only to assist property appraisers in their assessments of property.

Over the years, the Department has developed three sets of standard measures of value guidelines in accordance with the law⁵ to address this requirement.

- Florida Real Property Appraisal Guidelines (2002)
- Classified Use Real Property Guidelines (1982)
- Tangible Personal Property Appraisal Guidelines (1997)

The Department has already initiated the legal and subject matter research and review process necessary to update all of these guidelines. Although they do *not* have the force and effect of rules, the law⁶ requires that these standard measures of value be adopted in general conformity with the procedures set forth in section 120.54, F.S, which relates to rulemaking. Guidelines may also be updated annually with new data in accordance with the law which includes substantial conformity with section 120.54, F.S. While there is no specific legislative definition for the conformity standards, the Department believes this requires the standard measures of value to go through an open process with the opportunity for public vetting including:

- Publication by the Department of proposed draft updated guidelines on its website.
- Notice in the Florida Administrative Register with links to its website containing the proposed draft updated guidelines to provide the public a full and open opportunity to participate and provide comments regarding draft updated guidelines at workshops conducted by the Department.
- Review by the Department of any comments received.

⁴ Section 195.062(1), F.S.

⁵ Sections 195.032 and 195.062, F.S.

⁶ Section 195.062(1), F.S.

CORRECTIVE ACTION PLAN

- Publication of revised proposed drafts of updated guidelines after review of comments received and opportunity for public input has been completed.

Due to the highly technical and legal nature of the information contained in these standard measures of value guidelines, the limited number of available staff to work on the project, anticipated public interest in the project, and the number of public workshops that may be needed to obtain and address public input, the Department estimates that the process for updating the standard measures of value will take until December 31, 2022, to complete.

As noted above, the statutory process for adopting the standard measures of value is not clear. It is not clear which steps must be taken to meet the conformity standards. This lack of a clear process in the law could lead to legal challenges and implementations delays.

3. Forms and Instructions: The Manual is required to address forms and instructions for forms and maps. The Department's forms for property tax oversight are contained in Rule Chapter 12D-16, F.A.C. While the Department has adopted forms addressing property tax administration, the forms are not specifically identified on the webpage containing the Manual. The Department has updated its website to clearly reference the rules that contain the promulgated forms. The Department will continue to update and publish the forms and instructions to its website as needed.

4. Other Information: As previously noted, the Uniform Market Area Guidelines ("UMAG") are not appraisal guidelines. The Department has completed the UMAG as required by sections 193.114 and 193.1142, F.S., and uploaded them to its website for use by property appraisers. They provide guidance to property appraisers for placing market area codes on real property assessment rolls.

The Department has previously initiated efforts to update the UMAG as authorized under sections 193.114 and 193.1142, F.S. The Department anticipates finalizing the updating process for these guidelines by December 31, 2020.

Status Updates

- Open
- Management assumes risk
- Partially complete
- Complete pending OIG verification
- Complete

The Department is diligently moving forward on updating the Uniform Market Area Guidelines ("UMAG") and updated UMAG will be completed by December 31, 2020.

The Florida Real Property Appraisal Guidelines update will be completed by the December 31, 2022 deadline.

The Classified Use Real Property Guidelines update will be completed by the December 31, 2022 deadline.

The Tangible Personal Property Appraiser Guidelines update will be completed by the December 31, 2022 deadline.

The Cadastral Mapping Guidelines update will be completed.

CORRECTIVE ACTION PLAN