

Improving Controls Over The Property Reappraisal Process

Department of Revenue

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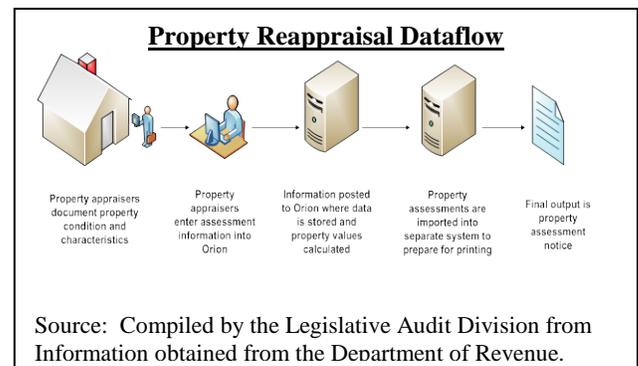
REPORT SUMMARY

Bolstering property appraisal documentation, regularly inspecting the state's 950,000 properties and protecting the integrity of appraisal data will enhance the Department of Revenue's property reappraisal process – a process which helps generate more than \$200 million annually for the state's general fund.

Context

Montana is only one of two states that are a “mass appraisal” state. Mass appraisal is the process of valuing a group of properties as of a given date using common data and standardized methods. A mass appraisal system gathers data using various methods such as physical inspection of properties, computer models, and aerial photography. The Department of Revenue is responsible for reappraising all real property for tax purposes on a six-year cycle. Because of the complexity of the department's reappraisal process, it is governed by a number of state laws, administrative rules, department policies and procedures, and professional appraisal standards.

The department's property reappraisal responsibilities are performed by staff located in Helena's Property Assessment Division and four geographic regions around the state. Every county in the state has a local department office which is located in the county seat. The department is required to appraise residential properties, including the land and any improvements. Appraisers review and document the physical characteristics, condition, desirability, and utility of the property. Ideally, an internal or external physical inspection of the property is desired. The value of the property is calculated using either a sales approach or a cost approach. The department is currently responsible for reappraising more than 950,000 parcels of property statewide.



In the event a property owner is dissatisfied with the appraised value or classification of their land or improvements, state law allows for taxpayers to appeal the department's appraisal. Appeals can be made to the department, to the County Tax Appeal Board, or State Tax Appeal Board.

We had two objectives for this audit. One was to determine if the property reappraisal process was consistently followed statewide. The other was to determine if controls existed to ensure the integrity and accuracy of reappraisal data. Audit work included an evaluation of the department's procedures for appraising and documenting property values. We also examined the department's methods to conduct department reviews when property owner's dispute the department's appraised value of their property. The controls over the department's computer system (Orion) which maintains and calculates property value information were analyzed to assess the accuracy of data maintained by the system. Audit work generally focused on the six-year property reappraisal cycle beginning January 1 2002, and ending July 1, 2008, (these reappraisal values were used for property tax purposes in tax year 2009). To meet our objectives, we

examined documentation for a random sample of 200 property appraisal files for residential, commercial, agricultural, and forestland properties located in five counties. Counties visited included Flathead, Gallatin, Lewis and Clark, Treasure, and Yellowstone. We queried Orion data and compared this data to property appraisal documentation maintained by local department offices. We also interviewed department management and staff located in local offices and in Helena. We used provisions identified in statute, administrative rule, department policies and procedures, and professional appraisal standards as criteria in which to evaluate the department's reappraisal process.

Results

Audit work noted appraisers follow similar processes to appraise property, but controls over the process should be improved. It was not always possible to verify the accuracy of information used to calculate property values due to inconsistencies in file documentation maintained in the department's local property record files. For example, information related to property characteristics (square footage, condition and utility of property, etc.) or why the department used a property value override was not always documented. We also noted approximately 26 percent of properties were not physically inspected during the last six-year reappraisal cycle with property inspections ranging from 19 percent to 99 percent. Orion (the department's computer system) maintains and calculates property values for the department. However, audit work noted several control weakness related to the system which could result in processing or valuation errors related to property values.

To address these concerns, our audit made several recommendations to improve management of the property reappraisal process. Recommendations issued are related to:

- ▶ Better documenting property appraisals
- ▶ Defining expectations for the number of property inspections conducted during each reappraisal cycle
- ▶ Complying with department review procedures of disputed appraisals
- ▶ Standardizing documentation of supervisory reviews of appraisals
- ▶ Limiting uncontrolled employee access to Orion data used to calculate property values
- ▶ Developing procedures to ensure department staff receive management authorization to override property values maintained in Orion
- ▶ Establishing controls to ensure property value data entered in Orion is complete and accurate

Recommendation Concurrence	
Concur	9
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the website at <http://leg.mt.gov/audit>. Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.