State of Montana
Office of the Legislative Auditor

Performance Audit
Property Assessment Division
Department of Revenue

This report contains recommendations for improvements in the controls over the property valuation process and the property reappraisal program. Major recommendations concern:

- Improving management controls over the property valuation process and the property appraisal program.

- Enacting legislation to place the assessment function under direct control of the Department of Revenue.

- Improving controls over division and county data processing.

Direct comments/Inquiries to:
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Room 135, State Capitol
Helena, Montana 59620
PERFORMANCE AUDITS

Performance audits conducted by the Office of the Legislative Auditor are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy. In performing the audit work, the audit staff uses audit standards set forth by the United States General Accounting Office.

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Performance Audit Report

PROPERTY ASSESSMENT DIVISION

DEPARTMENT OF REVENUE

January 1987

Report Number 86P-43

Members of the audit staff who worked on this audit were: Jim Nelson, Supervisor; Joe Seipel, Auditor-in-Charge; Brad Rafish, Senior; Mike Donovan, EDP Auditor; and Lisa Blanford, Staff Auditor. Additional information on the audit can be obtained by contacting the Office of the Legislative Auditor (406) 444-3122.
The Legislative Audit Committee
of the Montana Legislature:

This is our performance audit of the Property Assessment Division of the Department of Revenue. Our audit work was directed at the property valuation process and the property reappraisal program.

This report includes issues related to management and data processing controls over the property valuation process and the property reappraisal program. It also discusses available resources to complete property valuation work.

We wish to express our appreciation to the staff of the department for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>List of Illustrations</td>
<td>v</td>
</tr>
<tr>
<td>Administrative Officials</td>
<td>vii</td>
</tr>
<tr>
<td>Report Summary</td>
<td>S-1</td>
</tr>
</tbody>
</table>

## CHAPTER I

### Introduction

Audit Objectives                                                           | 1    |
Scope of Audit                                                            | 1    |
Compliance                                                                | 3    |
Survey Questionnaires                                                     | 4    |
Report Organization                                                       | 4    |

## CHAPTER II

### Background

History of Property Valuation in Montana                                  | 5    |
  The Property Classification System                                      | 6    |
  The State's Role in Property Valuation                                 | 7    |
Montana's Present Administrative Body: The Property Assessment Division | 9    |
Division and County Expenditures                                         | 13   |
Property Taxation Process                                                | 14   |
  Property Classes                                                       | 14   |
  Property Valuation                                                     | 15   |
    Property Valuation Process                                           | 15   |
    Property Reappraisal Cycle for Real Property                         | 18   |
Property Tax                                                             | 20   |
TABLE OF CONTENTS (continued)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determination of Mill Rates</td>
<td>21</td>
</tr>
<tr>
<td>The Property Tax Bill</td>
<td>21</td>
</tr>
<tr>
<td>Montana's Taxable Valuation and Tax Collections Related to Property</td>
<td>23</td>
</tr>
<tr>
<td>Montana's Property Tax Appeal Process</td>
<td>25</td>
</tr>
<tr>
<td>County Tax Appeal Boards</td>
<td>26</td>
</tr>
<tr>
<td>State Tax Appeal Board</td>
<td>28</td>
</tr>
<tr>
<td>How Montana Property Valuation Compares With Other States</td>
<td>31</td>
</tr>
</tbody>
</table>

CHAPTER III

Management Controls Over Property Valuation

Inconsistencies in Property Valuation Practices 35
Division Communication with County Staff 41
County Organization and Lines of Authority 43
Training and Certification 46
Appraisers 46
Conclusion 46
Assessors 47
Monitoring Taxpayer Reporting 50
Monitoring Taxpayer Reporting By County Staff 50
Real Property Mapping 53
Tax Appeals Process 54
Use of Comparables 55
Examples of Errors/Inconsistencies at CTAB Hearings 56
TABLE OF CONTENTS (Continued)

Verification of Market Sales Data 57
Management Information 58

CHAPTER IV
Available Resources to Complete Property Reappraisal 60
Conclusion 63

CHAPTER V
Property Tax Exemptions 64

CHAPTER VI
Division and County Data Processing
Appraisal Errors Not Detected by the CAAS System 70
Division Microcomputer Controls 71
   General Controls 72
   Application Controls 73
   Summary 73
Data Processing Agreements 74
Method Used to Fund County Data Processing 74
County Computers 77
   County Data Processing Policies and Procedures 77
County Data Processing Controls 78
   General Controls 78
   Application Controls 80
   Summary 81
Conclusion 81
The Marshall Valuation System 82
| TABLE OF CONTENTS (Continued) |
|-------------------------------|---|
| Residential                   | 82 |
| Commercial                    | 82 |
| Agency Response               | 84 |

**APPENDICES**

- Appendix A Survey Questionnaire Results: A-1
- Appendix B Property Classifications: B-1
- Appendix C Property Exemptions: C-1
<table>
<thead>
<tr>
<th>No.</th>
<th>Illustration</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Areas Outside Audit Scope</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Types of Property Valued by the Property Assessment Division</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Organizational Chart - Property Assessment Division</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Area Manager Regions</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Property Assessment Division Expenditures - Fiscal Years 1984-85 and 1985-86</td>
<td>13</td>
</tr>
<tr>
<td>6</td>
<td>Division Central Office and County Expenditure Breakdown - Fiscal Year 1985-86</td>
<td>13</td>
</tr>
<tr>
<td>7</td>
<td>Property Valuation Process</td>
<td>17</td>
</tr>
<tr>
<td>8</td>
<td>Examples of Major Concerns Which Occurred During Last Reappraisal Cycle</td>
<td>19</td>
</tr>
<tr>
<td>9</td>
<td>Process Used to Determine a Property Tax Bill</td>
<td>20</td>
</tr>
<tr>
<td>10</td>
<td>Example of Appraised Value for Residential Property</td>
<td>22</td>
</tr>
<tr>
<td>11</td>
<td>Example of Real Property Tax Computation</td>
<td>22</td>
</tr>
<tr>
<td>12</td>
<td>Montana's Total Taxable Value - 1985</td>
<td>23</td>
</tr>
<tr>
<td>14</td>
<td>Breakdown Where Average Property Tax Dollar Goes To - Statewide 1985</td>
<td>25</td>
</tr>
<tr>
<td>15</td>
<td>Property Tax Adjustment Forms - 1986 Tax Year</td>
<td>26</td>
</tr>
<tr>
<td>16</td>
<td>County Tax Appeal Decisions - 1984 and 1985</td>
<td>29</td>
</tr>
<tr>
<td>17</td>
<td>State Tax Appeal Board Cases - 1984 and 1985</td>
<td>30</td>
</tr>
<tr>
<td>18</td>
<td>Montana vs. Thirteen Other States</td>
<td>32</td>
</tr>
<tr>
<td>19</td>
<td>Property Valuation and Property Reappraisal Program Management Controls</td>
<td>34</td>
</tr>
<tr>
<td>20</td>
<td>Quality Grades for Single Family Residences</td>
<td>36</td>
</tr>
<tr>
<td>No.</td>
<td>Illustration</td>
<td>Page</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>21</td>
<td>Residential Property Comparisons</td>
<td>37</td>
</tr>
<tr>
<td>22</td>
<td>Residential Property Comparisons</td>
<td>38</td>
</tr>
<tr>
<td>23</td>
<td>Comparison of Market Valuations for Selected Commercial Properties</td>
<td>40</td>
</tr>
<tr>
<td>24</td>
<td>1985 Assessor School Test Scores</td>
<td>48</td>
</tr>
<tr>
<td>25</td>
<td>1986 Appraisal School Test Scores</td>
<td>48</td>
</tr>
<tr>
<td>26</td>
<td>Questionnaire Results - 1985 Assessor School</td>
<td>49</td>
</tr>
<tr>
<td>27</td>
<td>Number of County Assessor Offices Using Selected Taxpayer Monitoring Methods</td>
<td>51</td>
</tr>
<tr>
<td>28</td>
<td>Missed Personal Property for Selected Organizations Reviewed</td>
<td>52</td>
</tr>
<tr>
<td>29</td>
<td>Number of Improvements Per Day Per Appraiser By County Necessary to Complete Reappraisal During Five-Year Cycle</td>
<td>61</td>
</tr>
<tr>
<td>30</td>
<td>Data Processing Systems Where Property Data Is Located</td>
<td>67</td>
</tr>
<tr>
<td>31</td>
<td>Computer Assisted Appraisal System</td>
<td>69</td>
</tr>
<tr>
<td>32</td>
<td>Comparison of County Costs for Processing Property Data with Division Reimbursements for Selected Counties</td>
<td>76</td>
</tr>
</tbody>
</table>
ADMINISTRATIVE OFFICIALS

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PROPERTY ASSESSMENT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

PERFORMANCE AUDIT OF THE
DEPARTMENT OF REVENUE

PROPERTY ASSESSMENT DIVISION

Report Summary

Our audit work has identified three major areas which need to be addressed to improve the Property Assessment Division's ability to complete its property valuation responsibilities in a timely, efficient, and effective manner. These areas are:

1. management controls over property valuation and controls over data processing;
2. resources to complete property valuation work; and
3. legislative and administrative changes.

Chapters III through VI include recommendations to improve division management over property valuation and data processing. Provision of resources to complete property valuation work is an issue which will have to be addressed by the Legislature.

Background

Our audit focused on the Property Assessment Division's process of appraising and assessing property as it relates to valuation of personal and real property subject to taxation. Valuation involves locating taxable property, classifying it, and determining the property's value. County appraisers value locally assessed real properties (land, houses, commercial buildings, and industrial properties) while assessors value personal property based on personal property data submitted by taxpayers.

Property valuation for tax purposes in Montana has existed since 1889, the year Montana became a state. Montana's constitution required all taxable property to be assessed at full cash value and taxed at uniform rates. The 1919 Legislature established property classes each with different tax rates. Many changes to
property tax classification have taken place since the Legislature first adopted the practice.

The 1972 Montana Constitution (Article VIII, section 3) gave the state the responsibility for appraising, assessing and equalizing property values. Sections 15-8-101 and 15-9-101, MCA, state the Department of Revenue shall have full charge of assessing all property subject to taxation and shall adjust and equalize the valuation of taxable property among the counties and the different classes of taxable property in the counties and between individual taxpayers. Approximately 400 employees statewide are responsible for all aspects of the valuation function.

Management Controls Over Property Valuation

Our audit work in the area of property valuation indicates the state has made positive steps in attempting to equalize property valuation statewide; however, our audit work also indicates that perfect equalization has not and may never be attained. The discretion used to value property and adjustment of property valuations by county appraisers and assessors is the very core of the property tax system. Because of the "discretion factor" the system will continue to have inherent inequities. In an attempt to limit this discretion the property valuation process has gone through legislative changes, administrative rule-making, court decisions, and changes in department directives and control procedures.

During the audit we evaluated division controls over property valuation and the property reappraisal program for the reappraisal cycle completed January 1, 1986. We identified management control weaknesses which allow for appraisal and assessment errors and inconsistencies in valuation practices in and between counties. We noted that while controls over appraisal activity were in place, they often were not functioning adequately. In the case of assessors, controls were generally lacking. The following sections discuss areas where more effective management controls could improve the valuation process.
Inconsistencies in Property Valuation Practices

During our visits to county appraisal and assessment offices we documented inconsistencies between counties in the methods and procedures used to: 1) figure physical depreciation; 2) adjust quality grades; 3) determine land values; and 4) compute manual commercial property valuations. We found certain valuation practices performed in some counties and not in others. In general, management control of appraisal activities could be improved to provide for consistent appraisal procedures among the counties. To address this lack of controls, we recommend the division increase supervisory and division audit review of county offices.

Division Communication With County Staff

Our audit work and questionnaire responses indicated division communication on policies and procedures and timeliness of responses to county staff requests for information were not adequate. Questionnaire results indicated that 75 percent of the assessor offices and 28 percent of the appraiser offices believed communication between the division and the counties needs improvement. County staff suggested that more direct and timely communication is needed. We recommend the division reevaluate current communication methods and obtain county level recommendations for improvement. We also recommend the division develop procedures to ensure county requests for information are answered in a timely manner.

County Organization and Lines of Authority

The Property Assessment Division does not have direct control over elected assessors or their staff. The division cannot require assessors or their staff to meet minimum qualifications. Division personnel cannot evaluate the performance of these elected officials and require appropriate corrective action.
Coordination and communication between county appraisal offices and assessors offices could be improved. Specific coordination problems resulted in the following:

- Duplication of effort with both assessor and appraiser offices doing mapping and ownership changes, records management and maintaining property valuation computerized data.

- Inadequate cooperation between the assessor and appraiser offices. For example, in one county an appraisal office closed its doors early and did not answer phones in order to complete reappraisal work. As a result, the assessor's office was not able to contact the appraisal office for needed information. In some counties, appraisers have limited or no access to county computers and related property valuation data.

- Communication problems (as noted in previous section) and potential for loss of information from transferring or communicating information between assessor and appraisal offices.

It appears as long as assessors remain elected officials there will continue to be inadequate organization control. We recommend legislation be enacted to place the assessment function under direct control of the Department of Revenue.

Training and Certification

During the audit we reviewed division assessor and appraiser training and certification programs. We concluded that division training and certification of appraisers was adequate. However, we noted areas where assessor training could be improved. We recommend the division establish training goals and objectives for Assessor School training and use the Assessor School as a forum to document differences in county practices and to clarify policies and procedures.

Monitoring Taxpayer Reporting

During our county visits we reviewed procedures used to monitor taxpayer reporting. We found that assessors in six of eight counties visited do little or no travel in their counties to identify personal property not on the tax rolls. We identified some
personal property that was not on the tax rolls in two of these counties. The division and counties have not developed a consistent and effective approach to monitoring taxpayer reporting. We recommend the division implement a formal monitoring program as part of its audit function.

Real Property Mapping

We found that the Department of Revenue has not provided 71 percent of the counties with maps detailing ownership information such as property legal descriptions. Seventeen percent of the counties indicated they do not have a map for all portions of their county, and 29 percent of the county appraisal supervisors believe that maps are not current. Seventeen percent of the counties noted that they are not able to locate all parcels of property in their county with current maps. We recommend the division continue to request funds for mapping projects or continue to reclassify vacant positions to provide positions for staff to complete mapping projects.

Use of Comparables

We noted there are no formal written criteria or procedures for county staff to follow regarding use of comparables (properties that are similar to the property under appeal) at county tax appeal board hearings. Some county staff use comparable sales, some use comparable appraisals, and some did not use comparables. Dates of the comparable sales used at the county tax appeal board hearings we attended ranged from July 1976 to August 1985. As a result, inconsistencies in the market sales information available to various county tax appeal boards has occurred. We recommend the division develop written policies for county appraisal staff use of comparables.
Errors/Inconsistencies at County Tax Appeal Board Hearings

Our observations at county tax appeal board (CTAB) hearings and documented comments by CTAB members indicate errors and inconsistencies in the valuation process have occurred. We found examples where land and improvements were significantly over-valued or undervalued. We noted a case where a building was valued by an appraiser in 1984 and the taxpayer noted that the building was "not there" in 1984. Since division management does not regularly attend CTAB hearings they are unaware of many of the valuation errors and inconsistencies identified at the hearings. We recommend the division attend CTAB hearings to identify major appraisal errors and inconsistencies in county valuation practices. Policies and procedures that correct errors and inconsistencies identified at CTAB hearings could then be established.

Verification of Market Sales Data

Market sales data is used to establish land values and as a benchmark comparison for cost-based appraisals of real properties such as houses. During our field visits we noted that some counties verify market sales data through the use of a verification form while some verify with a personal phone call. We also found that some counties do little to verify sales data. As a result of time constraints of getting the property reappraisal cycle completed, some sales were not verified. Division and county staff noted that sales were usually verified as time and staff were available. To provide for useful market sales information, we recommend the division: 1) routinely sample sales to determine if verification screening procedures are followed uniformly by county appraisal staff; 2) develop written procedures for validating sales data from Realty Transfer Certificates; and 3) implement procedures defining county staff use of Realty Transfer Certificates.

Management Information

During the audit we requested comparative data on county and state tax appeals and on property tax exemptions. This
information would help identify areas of concern such as increases in certain types of tax appeals in a particular county related to use of different appraisal procedures. Much of this data was not maintained or analyzed by the division. Summary data is not readily available without a review of all agency case files. We recommend the division implement a management system to collect and analyze property information such as property tax appeals and property tax exemptions.

Available Resources to Complete Property Reappraisal

During the audit we reviewed appraisal staff workloads. Since most field appraisal work was completed prior to our audit visits, we were only able to observe a minimal amount of field appraisal work. Therefore, we were unable to determine an accurate estimate of time and resources needed to complete reappraisal responsibilities, and to determine if the division effectively allocated available resources between counties during the entire reappraisal cycle. However, the available information indicates the division, with current resources and present responsibilities, will not be able to adequately complete property reappraisal in a timely manner as required by legislative mandates. With less staff and time to complete reappraisal during the 1986-1990 cycle, the division's ability to effectively address other reappraisal problems which may occur may also be affected.

Property Tax Exemptions

We reviewed a small sample of 28 current exemptions and noted concerns with three of the property exemptions. One of the properties presently exempted should not have qualified for exempt status. In addition, application documentation was lacking for one exemption and another exemption had not been reviewed since 1977 to determine if it was still eligible. We found no specific procedure or process used at the county level to ensure the status of exemptions has not changed. We recommend the division maintain current lists of property exemptions and implement an annual
review of process which will provide an update of all granted exemptions.

**Appraisal Errors Not Detected By the CAAS System**

During our review of division data processing operations we found that the Computer Assisted Appraisal System (CAAS) controls were not adequate in the areas of reconciling output to input (comparing computer generated reports with residential property data manually recorded by appraisers) by county staff, and reasonableness checks over output data. County staff noted that CAAS appraisal output reports contained extensive errors. We asked appraisal staff in four counties if they reconciled CAAS output reports with the input documents. In all four counties, staff noted that reconciliation was not routinely done due to a lack of time and resources.

Our review of CAAS printouts also revealed some questionable appraisal values and physical depreciation factors. We discussed these values with county appraisers and they agreed that some of the values were in error. We recommend the division: 1) develop routine limit and reasonableness checks on physical depreciation; and 2) implement procedures to ensure county staff conduct input/output reconciliations.

**Division Microcomputer Controls**

We identified several concerns related to general and application controls over the division's microcomputer data processing functions. Weaknesses in microcomputer data processing general controls include:

- no division microcomputer policies and procedures;
- lack of an established plan for recovery of data and continuation of operations in case of disaster;
- inadequate backup and off premises storage of data and computer programs; and
- poor security over access to data files.
Microcomputer application controls were weak in one area. We noted little use of reasonableness checks by the division to ensure all transactions are processed as intended and that authorized transactions are not omitted from processing. We recommend the division establish microcomputer policies and procedures and implement reasonable controls over microcomputer data processing.

County Computers

Our work has indicated weaknesses in county computer operations in four major areas including:

- a lack of adequate data processing agreements;
- no method used to set funding levels for county data processing;
- a lack of county data processing policies and procedures; and
- inadequate county data processing controls.

We noted that the division lacks direct control over county computer operations. The passage of Senate Bill 19 during the June 1986 Special Session, which required all real property be assessed using a standard statewide notice, emphasizes the need for a centralized computer system. Many county computer systems may not be equipped to handle the amount of information necessary to generate standard statewide notices. The division has sought funding for a centralized computer system which could eliminate our concerns with county data processing controls.

The Marshall Valuation System

Approximately 50 percent of Montana's commercial property is valued by the Marshall Computer System. This amounts to $2.7 billion in 1986 market value.

The division relies on the Marshall System to accurately process property data and has not adequately reviewed Marshall System controls. We valued a random sample of four commercial
properties using both the Marshall Computer System and manual procedures. One example had a 21 percent difference between the automated valuation and the manual valuation. We also noted that the division does not have a formal contract with the Marshall Valuation Service which specifies services provided and related costs. We recommend the division implement processing controls over the Marshall System and formalize a contract with the Marshall Valuation Service.
CHAPTER I
INTRODUCTION

A performance audit of the Property Assessment Division of the Department of Revenue was conducted at the request of the Legislative Audit Committee. The division has general supervision over administering tax laws of the state. Section 15-3-101, MCA, states that "the Department of Revenue shall have full charge of assessing all property subject to taxation and equalizing values."

This report summarizes the results of our review of the property valuation program and its administration by the Property Assessment Division.

AUDIT OBJECTIVES

The four main objectives of the audit were:

1. To determine if property valuation procedures are efficient and effective and are consistently applied.

2. To determine if management controls over property valuation and the reappraisal program are adequate and are working as intended.

3. To identify any needed improvements in property valuation practices and the reappraisal program.

4. To review the reasonableness of division processes to reorganize assessment and appraisal functions and centralize division and county data processing operations.

SCOPE OF AUDIT

Our audit focused on the Property Assessment Division's process of assessing and appraising property as it relates to valuation of personal and real property subject to taxation. Valuation involves locating taxable property, classifying it, and determining the property's value.

Our audit was conducted in accordance with generally accepted governmental performance audit standards. It did not include a
review of the financial status of the division. The valuation of railroad and agricultural land was only briefly reviewed since these areas have been examined by the Revenue Oversight Committee and the Agricultural Land Advisory Committee, respectively. Areas outside the scope of our audit are noted in the following chart.

ARFAS OUTSIDE AUDIT SCOPE

<table>
<thead>
<tr>
<th>Area</th>
<th>Reason Outside Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net/Gross Proceeds Tax*</td>
<td>Administered by Department of Revenue, Natural Resource and Corporate Tax Division</td>
</tr>
<tr>
<td>Tax Collection</td>
<td>Not related to valuation, administered by county treasurer</td>
</tr>
<tr>
<td>Delinquent Taxes</td>
<td>Not related to valuation, administered by county treasurer</td>
</tr>
<tr>
<td>Tax Sales</td>
<td>Not related to valuation, administered by county treasurer</td>
</tr>
<tr>
<td>Duties of County Clerk and Recorder</td>
<td>Division only provides &quot;advice&quot; on limited basis</td>
</tr>
<tr>
<td>Duties of County Treasurer</td>
<td>Division only provides &quot;advice&quot; on limited basis</td>
</tr>
</tbody>
</table>

*The annual net and gross proceeds from metal and coal mining operations are subject to the taxable percentages noted in sections 15-6-131 and 15-6-132, MCA. Net/gross proceeds taxes are administered by the Natural Resource and Corporate Tax Division of the Department of Revenue. These taxes are collected by the assessor in the county where the mining operation is located.

Source: Compiled by the Office of the Legislative Auditor
Illustration 1

The performance audit focused on division and county activities since fiscal year 1982-83. Our audit work also included a review of the most recent five-year reappraisal cycle. The latest cycle, started January 1978, was extended two years and ended
January 1, 1986. The two-year extension was authorized by the 1981 Legislature.

As part of our audit work we examined division management controls such as goals and objectives, and policies and procedures over the property valuation process and the property reappraisal program. We also evaluated controls over property valuation data processing operations. In addition, we examined personnel management including evaluation procedures, training, and staff reporting. We attended the division's Assessor School and conducted field work in seventeen county offices.

A sample of other states with property valuation agencies was contacted for comparative information. We obtained information from appraisal and assessment organizations to identify specific guidelines, directives, and requirements regarding property valuation.

During the audit, division functions were reorganized and plans to centralize division and county data processing are currently under consideration. As a result of the division reorganization, two bureaus, the Management Services Bureau and the Audit Bureau, were formed to provide better data processing support and to expand the division's audit program. Division officials submitted a budget modification request for fiscal year 1987-88 which would develop an on-line data capture system accessible from county offices. Data processing terminals in the counties would be used to electronically transmit property valuation data to the division for processing.

We asked division officials for written responses to selected audit points. We informed division management of potential report issues and recommendations during the audit rather than after audit completion.

COMPLIANCE

We reviewed compliance with statutes, administrative rules, and policies related to property valuation and the property reappraisal program. We found several instances of noncompliance with
applicable rules and regulations. These items are discussed in the report as they relate to specific audit issues. For items we did not test for compliance, nothing came to our attention which indicated significant instances of noncompliance.

SURVEY QUESTIONNAIRES

We developed and mailed questionnaires to each county office to solicit views and opinions on Montana's present property valuation system and on specific areas regarding available assessment/appraisal resources and real property mapping. Division area managers and county tax appeal board chairpersons were also asked to respond to a questionnaire. A partial summary of questionnaire results is located in Appendix A. Other questionnaire results are discussed in the report as they relate to specific audit issues.

REPORT ORGANIZATION

The report is presented in six chapters. Major findings relate to division and county data processing and division management controls over property valuation. Our report discusses areas where the division has improved the system of property valuation. We note areas where division management controls and controls over property valuation data processing could be more effective.
CHAPTER II
BACKGROUND

HISTORY OF PROPERTY VALUATION IN MONTANA

Property valuation for tax purposes in Montana has existed since 1889, the year Montana became a state. Montana's constitution required all taxable property to be assessed at full cash value and taxed at uniform rates. Property at that time included "money, credits, stocks, bonds, franchises, and all matters and things (real, personal, and mixed) capable of private ownership. . . ."

In 1890, the State Board of Equalization was organized to adjust and equalize the valuations of taxable property in and among the various counties of the state. The Board had no specific statutory guidelines or direction. In 1896 the Supreme Court ruled the Board had no authority to increase or decrease the value of property in the state's counties.

The Board continued to inform the Legislature of problems in valuation of real estate and personal property including lack of uniform and just valuation. It also suggested the state revise its form of taxation and give receipts from real and personal property to local governments.

During the next decade, uniformity in property valuation decreased. The 1913 Legislature created a tax commission to address the problems and supervise the state's taxation system. A State Tax Commission was appointed and aided by a three-member Board of County Appraisers in each county. Each county board was responsible for fixing the "true value" of all property within its county.

The Commission, however, did not have authority to actually supervise, review, and equalize assessments between counties. The 1915 Legislature abolished the Commission and proposed a constitutional amendment to enlarge the powers of the State Board of Equalization - allowing it to equalize taxable valuations. The amendment was adopted by the electorate in 1916, though it was never implemented by law. The 1917 Legislature considered the
amendment, but as a "compromise" created a temporary Tax and License Commission to study the state's tax situation.

Three members were appointed to the Tax and License Commission. The final report of the Commission noted a lack of uniformity, not only between different counties but also between different individuals, as well as a complete disregard of the statutory provisions relating to full value of property. A large amount of property in Montana was escaping assessment because it was not, or could not be, listed by the assessor. The Commission concluded the system of taxation in the state was a "failure," resulted in "unjust discrimination," and was "utterly inadequate."

The Property Classification System

The Tax and License Commission believed Montana should abandon its general tax system in favor of a classified system - a tax system in which various classes of property are either assessed for tax purposes at different percentages of value or taxed at different rates. Seven classes were recommended each with a different tax rate applied to the true and full value of each class. A classification bill, as suggested by the Commission, passed the 1919 Legislature.

Many changes to property tax classification have taken place since the Legislature first adopted the practice. The administrative duties of the State Board of Equalization were expanded by the 1921 Legislature. Its membership was changed from three ex officio state officers to three members appointed by the Governor and approved by the Senate.

Statutory powers and duties were given to the Board in 1923. The Board could prescribe rules and regulations to govern county boards of equalization and the assessors of the various counties. Assessors would remain as elected local officials, but the Board could require county attorneys to assist it in prosecuting any assessor who neglected his duty.

Assessments in Montana fell further away from mandated full cash value during the period from 1930 to the 1950s. A large
disparity between market values and assessments developed due to declining land prices and to assessors' conservative approach to inflation. In 1954 the Board of Equalization informed the Legislature the administration of property valuation in the state had deteriorated to a situation where assessments were made upon various percentages of full value.

The State's Role in Property Valuation

The 1955 and 1957 Legislatures passed legislation to bring all real property assessments statewide up to their full cash value. This task was to be done in five years but in late 1962 a dispute erupted between 26 county assessors and the State Board of Equalization over values on rural land. This dispute was addressed by the 1963 Legislature. A resolution was passed calling for a study of the state's classification laws "to determine whether Montana's law is equitable and, if so, whether its administration is, in fact, resulting in equitable taxation."

The study found several areas of concern with the state's taxation system and recommended:

1. Mandatory sales assessment ratio studies (A sales assessment ratio study compares assessed valuations with market sales prices.);
2. The exemption of household goods, wearing apparel, and similar personal property; and
3. The exemption of money and credits.

Items 2 and 3 were implemented into law and sales assessment ratios have been done on a limited basis.

Delegates to the 1972 Montana Constitutional Convention addressed property valuation and taxation concerns. The Committee on Revenue and Finance addressed the issues and found that:

"The details of any tax administration system should be left to the legislature, which is the best qualified to develop the most efficient, modern, and fair system necessary for the needs of the day. Tax administration should be established by the legislature and administered
by the executive branch of government, not by a constitutional board which is immune from control by the people. A constitutionally enshrined board is less answerable for its activities and is freer to ignore the mandates and directives of the legislative assembly."


The new Constitution gave the state rather than the Board of Equalization the responsibility for appraising, assessing, and equalizing values of property (Article VIII, section 3). The elected county assessors by law are designated agents of the Department of Revenue. The elected assessor position was created in 1891.

The 1975 Legislature initiated a study to examine whether the tax classification system used by the department was equitable. The study found that the Legislature should be the body to establish effective tax rates. In order to streamline the classification system, the 1977 Session passed a bill requiring all property to be assessed at 100 percent of market value and taxed at rates established by the Legislature. Montana's property was placed in 20 classes of property taxed at different rates.

During the 1977-79 interim period, a subcommittee of the Revenue Oversight Committee studied the classification system. The subcommittee recommended: 1) the reduction of the number of classes from 20 to 10; 2) the rounding of the tax rate in each class to make calculations less complex; 3) the grouping of like property in the same class; and 4) the elimination of rarely used tax classifications. These changes, the subcommittee believed, would:

1. make property taxation easier for citizens to understand;
2. decrease the complexity of the assessor's work;
3. make tax rates more equitable by grouping property of a like nature together; and
4. achieve these objectives without significant fiscal impact.
The 1979 Legislature adopted these recommendations.

Legislative sessions from 1981 to 1986 produced numerous changes to Montana's classification system. The classification system included twelve classes of property at the end of the 1983 session. This was increased to 16 classes of property in 1985. Since the regular session of the 1985 Legislature, three more have been added, resulting in a total of 19 classes of property.

MONTANA'S PRESENT ADMINISTRATIVE BODY: THE PROPERTY ASSESSMENT DIVISION

The Department of Revenue's Property Assessment Division is responsible for valuation of all property, both real and personal, in the state. Sections 15-8-101 and 15-9-101, MCA, state the Department of Revenue shall have full charge of assessing all property subject to taxation and shall adjust and equalize the valuation of taxable property among the counties and the different classes of taxable property in the counties and between individual taxpayers.

The following table summarizes the types of property valued by the division and its staff.
<table>
<thead>
<tr>
<th>REAL PROPERTY</th>
<th>PERSONAL PROPERTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Examples</td>
</tr>
<tr>
<td>Residential</td>
<td>Homes, and land</td>
</tr>
<tr>
<td>Commercial</td>
<td>Commercial</td>
</tr>
<tr>
<td></td>
<td>businesses</td>
</tr>
<tr>
<td></td>
<td>such as motels,</td>
</tr>
<tr>
<td></td>
<td>banks, and retail</td>
</tr>
<tr>
<td></td>
<td>stores. The land</td>
</tr>
<tr>
<td></td>
<td>the commercial</td>
</tr>
<tr>
<td></td>
<td>business is</td>
</tr>
<tr>
<td></td>
<td>located on is</td>
</tr>
<tr>
<td></td>
<td>also included.</td>
</tr>
<tr>
<td>Industrial</td>
<td>Companies involved in manufacturing process such as mining and wood products. The land the industrial company is located on is also included.</td>
</tr>
<tr>
<td>Agricultural</td>
<td>Farm land</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Timberland</td>
<td>Commercial timberland</td>
</tr>
<tr>
<td>Centrally Assessed Property</td>
<td>Airlines, railroads,</td>
</tr>
<tr>
<td></td>
<td>and other utility properties</td>
</tr>
</tbody>
</table>

Note: Other personal property not included in the chart (such as watercraft, all terrain vehicles, buses and trucks over 3/4 ton, etc.) are valued by the county assessors.

Source: Compiled by the Office of the Legislative Auditor

Illustration 2

During the audit the department was authorized 440 FTE who were responsible for the valuation function. Due to recent budget cuts the department is currently operating with approximately 400 FTE. The following chart depicts the current organizational structure of the Property Assessment Division.
County appraisal offices generally consist of an appraisal supervisor, appraisers, and clerks. Duties include performing on-site appraisal of real estate (land and improvements to land such as houses, commercial buildings, etc.). County assessor offices generally consist of an elected assessor, a deputy assessor, and clerks. Duties include determining the market value of personal property and the taxable value of property (real and personal).

During the audit the division had approximately 32 of the total number of employees in Helena performing various administrative and support functions for assessment and appraisal field staff. Ten of the 32 employees are area managers who oversee the activities of field staff located in Montana's counties. The area managers are stationed in field offices in each of the area manager regions. Illustration 4 shows the ten area manager regions.
All field staff except elected county assessors and their deputies are hired through division hiring procedures. Two counties (Missoula and Deer Lodge) have combined assessor/appraiser offices. In the combined offices there is an assessment/appraisal manager, appraisers, assessment technicians, and clerks who perform assessment, appraisal, and clerical duties. There are no elected assessors in the combined offices. County assessors may be elected or appointed as stated in section 7-4-2203, MCA.
DIVISION AND COUNTY EXPENDITURES

Property Assessment Division expenditures for fiscal years 1984-85 and 1985-86 are shown below. All division funding is from the state General Fund.

PROPERTY ASSESSMENT DIVISION EXPENDITURES* - Unaudited
Fiscal Years 1984-85 and 1985-86

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Fiscal Year 1984-85</th>
<th>Fiscal Year 1985-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Services</td>
<td>$ 9,710,066</td>
<td>$ 9,683,647</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,735,165</td>
<td>1,661,653</td>
</tr>
<tr>
<td>Equipment</td>
<td>240,433</td>
<td>242,846</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$11,685,664</td>
<td>$11,588,146</td>
</tr>
</tbody>
</table>

*Includes division and county expenditures.

Source: Statewide Budgeting and Accounting System

Illustration 5

The following illustration shows a breakdown of division central office and county (includes division appraisal and assessment staff located in county offices) expenditures for fiscal year 1985-86.

DIVISION CENTRAL OFFICE
AND COUNTY EXPENDITURE BREAKDOWN - Unaudited
Fiscal Year 1985-86

<table>
<thead>
<tr>
<th></th>
<th>Personal Services</th>
<th>Operating Expenses</th>
<th>Equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division</td>
<td>$ 912,513</td>
<td>$ 398,130</td>
<td>$ 30,807</td>
<td>$ 1,341,450</td>
</tr>
<tr>
<td>County</td>
<td>8,771,134</td>
<td>1,263,523</td>
<td>212,039</td>
<td>10,246,696</td>
</tr>
<tr>
<td>Totals</td>
<td>$9,683,647</td>
<td>$1,661,653</td>
<td>$242,846</td>
<td>$11,588,146</td>
</tr>
</tbody>
</table>

Source: Statewide Budgeting and Accounting System

Illustration 6
PROPERTY TAXATION PROCESS

Three components are included in the process used to determine a taxpayer's property tax. These components are:

1. Establishing property classes and applicable taxable percentages set by the Legislature.

2. Valuing taxable property (real and personal property) primarily by assessor and appraiser staff.

3. Determining local mill rates by county commissioners based on operating budgets established by local governments, county governments, and public schools and the county's taxable value (property values multiplied by taxable percentages). A statewide mill is also assessed. A total of 51 mills is collected for the state with 45 mills going to school equalization aid and 6 mills to the University System. A small amount is also collected for livestock. Illustration 13 on page 24 shows the actual breakdown.

Property Classes

All property subject to taxation in Montana is classified according to type. Each class has its own taxable percentage which is multiplied by market value to arrive at the taxable value. The taxable percentages are set by the Legislature. Thirty-seven categories of property in Montana have been exempted from taxation by the Legislature. Exempt property categories are discussed in Chapter V. Appendix B contains summary information on all the property classifications and applicable tax rates as established by the Legislature.

Examples of some of the major property classes are:

A. Class three property includes agricultural land which is taxed at 30 percent of its productive capacity.

B. Class four property consists of all land except that specifically included in another class and all improvements (such as homes) except those specifically included in another class. Class four property is taxed at 3.86 percent.
C. Class six property is taxed at 4 percent of its market value and includes:

1. livestock and poultry and the unprocessed products of both,

2. all unprocessed agricultural products on the farm or in storage except perishable fruits and vegetables in farm storage and owned by the producer, and

3. items of personal property intended for lease in the ordinary course of business.

D. Class fifteen property includes all railroad transportation property. (Taxed at a 12 percent rate.)

E. Class sixteen property includes watercraft, all terrain vehicles, tack equipment (harness, saddles, etc.), and all other property used for noncommercial purposes which is not real property. (Taxed at an 11 percent rate.)

Property Valuation

Property is divided into two types: real and personal. Real property is the actual land and all things permanently attached to it (houses, commercial buildings, grain bins, etc.). Personal property consists of movable items not permanently affixed to, or part of, the real property (examples of personal property include aircraft, livestock, business equipment, etc.). Each type of property (except agricultural land, timberland, and annual net/gross proceeds from coal and metal mining operations) is to be assessed at 100 percent of its market value as of a specific base year - the value at which property would change hands between a willing buyer and a willing seller.

Property Valuation Process

Property valuation duties are actually divided between counties and the state. County assessors and appraisers locate, list, and value most property. County appraisers are responsible for all locally assessed properties (land, houses, commercial buildings, industrial properties) while assessors value personal property
based on personal property data submitted by taxpayers. The division values centrally assessed (intercounty) properties (utilities, railroads, etc.), timber, and some industrial properties (grain elevators, refineries, etc.). Centrally assessed companies include railroads whose railroad tracks and railroad cars cross between a number of counties in Montana. The following illustration provides an overview of the property valuation process.
Property Valuation

Property Located
Real Property: Personal Property:
Parcel Numbering System Reported by Owner

Property Identified
Real Property: Personal Property:
Parcel Numbering System:
(CertiPORT)

Property Classified
Real Property: Personal Property:
Exempt Property, etc.

Data Is Collected And Analyzed
General Data Specific Data Comparative Data

Real Property Valuation

Residential, Commercial, and Industrial
Cost Approach Using Computer Assisted Appraisal System

Cost Approach Using Computer Assisted Appraisal System

Cost Approach Using Cost Approach Using

Values Calculated By County

Assessor Per Division Cost

Machinery, Business Equipment, etc.

Values Calculated By County

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Values Calculated By County

Assessor Per Division Cost

Machinery, Business Equipment, etc.
Property Reappraisal Cycle for Real Property

The Department of Revenue, through the Property Assessment Division is required to administer and supervise a program for reappraisal of all real property within the state at least every five years. The most recent cycle began January 1, 1978, and ended January 1, 1986. This cycle was extended two years by the Legislature in 1981. The following chart shows some major concerns noted by division officials during the last reappraisal cycle.
### Examples of Major Concerns Which Occurred During Last Reappraisal Cycle

<table>
<thead>
<tr>
<th>Reappraisal Cycle Problems</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Assessment Division used two different Marshall valuation manuals to value property. A 1972 manual was used to value residential property and a 1976 manual was used to value commercial property.</td>
<td>Problem resolved through litigation.</td>
</tr>
<tr>
<td>Non-Standard data collection procedures and inadequate property description records leading to duplication and collection of excess data.</td>
<td>Property data collection processes standardized and improved.</td>
</tr>
<tr>
<td>Lack of training and certification of appraisal staff.</td>
<td>Standard International Association of Assessing Officers certification process implemented.</td>
</tr>
<tr>
<td>Differences in methods used to value mobile homes, wells and septic systems and use of farm home discounts.</td>
<td>Implementation of legislative changes and related procedures by the division should help correct the problem.</td>
</tr>
<tr>
<td>Reduced funding and staff resources to complete reappraisal.</td>
<td>Lack of adequate resources is still a concern. See Chapter IV.</td>
</tr>
<tr>
<td>&quot;Transitory&quot; nature of mobile homes. A number of mobile homes are moved without the owner acquiring moving declarations. If an individual moves his mobile home without paying the taxes, he/she is subject to a fine. However, once the home is located, he/she is no longer in jeopardy for back taxes or penalties.</td>
<td>A committee of elected officials was formed to address the problem. The committee concluded that legislative changes will be necessary.</td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor from division records.

Illustration 8
Property Tax

Property taxes, in theory, are based solely upon value, not
upon the ability of the owner to pay nor upon the amount for
which the property last sold. Once the actual value of the prop-
erty is obtained and mill rates are established, the amount of
property tax due for each individual property can be determined.
The illustration below shows the process used to compute property
taxes for real and personal property.

![Diagram of property tax calculation process]

Source: Compiled by the Office of the Legislative Auditor

Illustration 9

The county appraiser values all real property and sends real
property "market" values to the County Assessor. The County
Assessor values personal property and determines the taxable
value of all property (real and personal). The values for property
assessed by division staff in Helena (centrally assessed properties
and some industrial properties) are sent to the County Assessors
in the affected counties. The County Assessor multiplies the
property "market" values by the taxable percentage rates set by
the Legislature to arrive at taxable value. The listing of all
taxable property and the corresponding taxable values make up the County Assessment Roll.

**Determination of Mill Rates**

The County Assessment Roll is used to determine the county mill levy needed to meet the operating budgets of local government, county government, and public schools. One mill is one tenth of a cent or $1 tax for every $1,000 of taxable value.

The county/local mill rate is computed by comparing local budget needs with the taxable value of a district. This is done after revenue from other sources have been determined. For example, if a school board in a school district that has a total taxable valuation of $100 million decided it will need $10 million in addition to that available from other sources to operate during the next tax year, it would calculate the required mill rate as 10/100 = .100 or 100 mills. In addition to the mill rate for local needs (local/county government and public schools), a statewide mill is also assessed. Illustration 13 on page 24 shows a breakdown of the various mill levies.

After mill levies are determined for all the various taxing jurisdictions, the County Assessor calculates the property tax and the County Treasurer is charged with billing the taxpayer and collecting the property taxes.

**The Property Tax Bill**

This section includes an example of the process used to prepare a property tax bill for a residential property. Real property (land and improvements) values are calculated using property information collected by county appraisal staff. The property data (i.e., type of exterior finish, square footage of the house, quality grade, physical depreciation, etc.) is input into the Computer Assisted Appraisal System (CAAS). The CAAS system computes appraised and taxable values for the property which are then transmitted to the county appraiser to be used to determine the County Assessment Roll.
EXAMPLE OF APPRAISED VALUE FOR RESIDENTIAL PROPERTY

<table>
<thead>
<tr>
<th></th>
<th>Property Class</th>
<th>Appraised Value</th>
<th>Taxable Percentage</th>
<th>Taxable Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Class 4</td>
<td>$ 8,500</td>
<td>(3.86%)</td>
<td>$ 328</td>
</tr>
<tr>
<td>Improvements</td>
<td>Class 4</td>
<td>48,823</td>
<td>(3.86%)</td>
<td>1,885</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$57,323</strong></td>
<td></td>
<td><strong>$2,213</strong></td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor

Illustration 10

In the example above the total appraised value for the land and improvements is $57,323. Residential property is in class 4 which is taxed at 3.86% which results in a taxable value of $2,213 ($57,323 x .0386 = $2,213). The next step in calculating the property tax bill is to determine the number of mills associated with that property in the taxing jurisdiction where the property is located. For the above example, assume the total levy is 413.41 mills. This total levy is derived from the number of mills needed for the city, the school district, the county, and the state. The following illustration shows the computation of the property tax for the example residence.

EXAMPLE OF REAL PROPERTY TAX COMPUTATION

\[
\begin{align*}
\text{Real Property Market Value} & = 57,323 \\
\text{Taxable \% for class 4 property} & = .0386 \\
\text{Taxable Value} & = 2,213 \\
\text{Mill Rate} & = .41341 \\
\text{Property Tax*} & = 915
\end{align*}
\]

*Special levies and fees (for street maintenance, sanitation and special improvements) may be included in the property tax bill.

Source: Compiled by the Office of the Legislative Auditor

Illustration 11
The process for computing personal property taxes is similar. Personal property is reported by the taxpayer to the county assessor who values it using division cost manuals, schedules, and guidebooks. Once the market value is determined, a process similar to real property is used to prepare a personal property tax bill.

MONTANA'S TAXABLE VALUATION AND TAX COLLECTIONS RELATED TO PROPERTY

The following chart shows the total taxable value (property value multiplied by taxable percentage) for the various categories of property in Montana.

MONTANA'S TOTAL TAXABLE VALUE - 1985
$2,370,133,344

- Agricultural Land 6.2%
- All Other Real Property 27.7%
- Livestock 1.1%
- Net & Gross Proceeds 32.5%
- Utilities 17.5%
- All Personal Property (excluding livestock) 15%

Note: Taxable value is the assessed or market value times the appropriate taxable percentage as set by the Legislature.

Source: Department of Revenue

Illustration 12

As mentioned earlier, the actual taxes collected are based on local government, public school, and state (to a limited extent)
budget needs. The next two illustrations show the amount of taxes collected (taxable value multiplied by mill rate equals taxes due - however, taxes actually collected may be less due to delinquent and/or protested taxes) related to property for each type of public entity.

<table>
<thead>
<tr>
<th>Market Valuation of State</th>
<th>1983</th>
<th>1984</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>State:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Village</td>
<td>$13,123,219</td>
<td>$13,917,989</td>
<td>$14,205,641</td>
</tr>
<tr>
<td>Livestock</td>
<td>1,866,002</td>
<td>2,107,755</td>
<td>2,086,684</td>
</tr>
<tr>
<td></td>
<td>$14,989,221</td>
<td>$16,025,744</td>
<td>$16,292,325</td>
</tr>
<tr>
<td>County:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$38,900,910</td>
<td>$41,189,744</td>
<td>$42,287,962</td>
</tr>
<tr>
<td>Road</td>
<td>22,243,455</td>
<td>22,606,240</td>
<td>23,124,956</td>
</tr>
<tr>
<td>Bridge</td>
<td>6,586,076</td>
<td>6,381,019</td>
<td>6,800,513</td>
</tr>
<tr>
<td>Poor</td>
<td>12,101,084</td>
<td>13,547,792</td>
<td>13,223,619</td>
</tr>
<tr>
<td>Bond Interest and Sinking</td>
<td>1,930,144</td>
<td>1,667,733</td>
<td>2,036,523</td>
</tr>
<tr>
<td>County Fair</td>
<td>1,753,625</td>
<td>2,026,112</td>
<td>2,210,664</td>
</tr>
<tr>
<td>Library</td>
<td>2,171,408</td>
<td>1,930,547</td>
<td>2,812,543</td>
</tr>
<tr>
<td>Agricultural taxation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>1,542,050</td>
<td>1,598,659</td>
<td>1,858,901</td>
</tr>
<tr>
<td>Planning</td>
<td>706,694</td>
<td>6,12,092</td>
<td>574,565</td>
</tr>
<tr>
<td>Health and Sanitary</td>
<td>566,294</td>
<td>516,791</td>
<td>726,526</td>
</tr>
<tr>
<td>Hospital</td>
<td>1,104,281</td>
<td>1,409,853</td>
<td>2,087,460</td>
</tr>
<tr>
<td>Airport</td>
<td>1,481,943</td>
<td>1,259,825</td>
<td>1,378,903</td>
</tr>
<tr>
<td>Other</td>
<td>29,775,001</td>
<td>20,838,456</td>
<td>23,792,903</td>
</tr>
<tr>
<td>$183,150,011</td>
<td>$188,294,699</td>
<td>$193,667,740</td>
<td></td>
</tr>
<tr>
<td>$494,119,002</td>
<td>$525,055,452</td>
<td>$531,430,492</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire Districts</td>
<td>$6,341,885</td>
<td>$6,485,252</td>
<td>$6,517,187</td>
</tr>
<tr>
<td>Other</td>
<td>23,934,929</td>
<td>24,773,029</td>
<td>25,085,584</td>
</tr>
<tr>
<td>$30,273,814</td>
<td>$31,268,281</td>
<td>$31,504,771</td>
<td></td>
</tr>
<tr>
<td>Total All Taxes Except</td>
<td>$444,410,466</td>
<td>$480,386,042</td>
<td>$502,154,155</td>
</tr>
<tr>
<td>Cities and Towns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central</td>
<td>$38,558,198</td>
<td>$40,930,877</td>
<td>$43,643,202</td>
</tr>
<tr>
<td>Special Improvements</td>
<td>22,011,155</td>
<td>23,772,647</td>
<td>26,289,582</td>
</tr>
<tr>
<td>$60,569,353</td>
<td>$64,703,524</td>
<td>$69,932,784</td>
<td></td>
</tr>
<tr>
<td>Gross Total of All Taxes</td>
<td>$505,040,221</td>
<td>$554,089,316</td>
<td>$572,086,939</td>
</tr>
</tbody>
</table>

*Chart shows only University System village and Livestock village collected for the state. Another 45 mills (17 mills secondary school levy and a 28 mill elementary school levy) are part of the School Foundation program equalization aid. Our recent audit report of the Office of Public Instruction (be-9) noted that most of these revenues are not recorded on the state's accounting records.

Source: Department of Revenue

Illustration 13

24
AVERAGE PROPERTY TAX DOLLAR GOES TO:

State-wide 1985

Source: Department of Revenue

Illustration 14

The pie chart above shows average figures for the state of Montana. However, schools in some counties receive a larger or smaller percentage of the property tax dollar to operate depending upon budget and associated millage rates.

MONTANA'S PROPERTY TAX APPEAL PROCESS

The ability to appeal one's property valuation is a major factor in the valuation process. Property owners are provided with a means to inquire about their valuations and resolve any major disputes. The appeal system provides opportunities for hearings before independent bodies and ultimately attempts to
ensure that valuations are correct, fair, and equitable. The next two sections discuss county tax appeal boards and the State Tax Appeal Board.

County Tax Appeal Boards

Montana's tax appeal process begins with an informal hearing between the property owner and the assessor (personal property) or appraiser (real property) of the county in which the property is located. Real property valued by division staff in Helena (centrally assessed and industrial property) is appealed directly to the State Tax Appeal Board bypassing the county appeals process since the property was not valued by county staff.

At the county appeals level, an adjustment form is completed by the property owner detailing why a concern exists with the current assessed value. The following chart lists the number of property tax adjustment forms filed in 1986.

Note: There were more informal hearings than 23,915 due to limited cases of non-filing of adjustment forms in some counties.

Source: Compiled by Office of the Legislative Auditor from Property Assessment Division records

Illustration 15
If the taxpayer, upon completion of this hearing, is not satisfied, a formal appeal application can be completed. This must be done within 15 days after receipt of the assessment notice or on or before the first Monday in June. This initial appeal is heard by a county tax appeal board (CTAB).

The CTAB is a three-member board appointed by the county commissioners of each county. Each CTAB member must be a resident of the county in which he/she serves.

CTABs begin meeting the third Monday in April and continue in session until all appeals are heard. Actual proceedings are generally informal and representation by an attorney is not necessary.

Three types of decisions can be made by the county tax appeal boards:

A. The appeal can be DENIED, i.e., the board upholds DOR's appraisal;

B. The appeal can be GRANTED, i.e., the board sides with the taxpayer, granting him the requested values, classification, etc.; or

C. The appeal can be ADJUSTED, i.e., the board decides that the initial valuation, classification, etc. is not entirely correct and adjusts it accordingly.

During our audit we observed 12 county tax appeal hearings to determine if a quorum of each board was present during proceedings and if board procedures outlined in section 15-15-103, MCA, were followed. We found all were conducted according to state law.

1During the 1986 June Special Session, the application deadline for reduction in 1986 valuations was extended to August 1, 1986, or 15 days after receipt of a revised notice of classification and appraisal, whichever is later.
State Tax Appeal Board

The decision of a CTAB can be further appealed to the State Tax Appeal Board (STAB) by either the taxpayer or the Department of Revenue. The State Tax Appeal Board hears all CTAB appeals in the county in which they originated. STAB also can make any of the three types of decisions county boards can.

A person may also appeal directly to the state board (without first having the case heard by a county board) for any actions involving:

- centrally assessed property (airlines, public utilities, railroads, mines, etc.);
- any other tax other than property tax; and
- any other matter provided by law.

The appeal to STAB is made by filing a complaint within 30 days of either the county tax appeal board decision or receipt of property values for the actions stated above (centrally assessed property, etc.) As with CTABs, representation by an attorney is not necessary.

A number of State Tax Appeal Board hearings were observed during our audit. Each hearing was conducted in a manner consistent with applicable state laws and rules.

A final course of action for a party who is aggrieved by the STAB decision is appeal to district court. During our audit we did not observe any district court hearings.

We reviewed both CTAB and STAB files for 1984 and 1985 during the audit. The following charts summarize the number of appeals and types of decisions for each.
COUNTY TAX APPEALS  
- ALL PROPERTY -

Source: Compiled by the Office of the Legislative Auditor from Property Assessment Division Files

Illustration 16
### STATE TAX APPEAL BOARD CASES

<table>
<thead>
<tr>
<th></th>
<th>1984</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cases before STAB:</td>
<td>168</td>
<td>120</td>
</tr>
<tr>
<td>Average time between STAB hearing and STAB decision:</td>
<td>54 days</td>
<td>55 days</td>
</tr>
<tr>
<td>Range:</td>
<td>2 to 251 days</td>
<td>1 to 126 days</td>
</tr>
<tr>
<td>Number of times CTAB was overruled:</td>
<td>63</td>
<td>52</td>
</tr>
<tr>
<td>Appealed by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOR</td>
<td>29%</td>
<td>16%</td>
</tr>
<tr>
<td>Taxpayer</td>
<td>71%</td>
<td>84%</td>
</tr>
<tr>
<td>Decisions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For DOR</td>
<td>59</td>
<td>39</td>
</tr>
<tr>
<td>% of total appeals</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>For taxpayer</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>% of total appeals</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Adjusted</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>% of total appeals</td>
<td>32%</td>
<td>44%</td>
</tr>
<tr>
<td>Dismissed/Withdrawn</td>
<td>41</td>
<td>15</td>
</tr>
<tr>
<td>% of total appeals</td>
<td>24%</td>
<td>13%</td>
</tr>
</tbody>
</table>

*The STAB, at times, will combine a number of similar appeals under one STAB case.

Source: Compiled by the Office of the Legislative Auditor from State Tax Appeals Board files

Illustration 17

As shown by the above charts, appeals in Montana were fairly consistent in both numbers and decisions in 1984 and 1985. In 1986 the number of appeals to county tax appeal boards increased to over 11,000. This was mainly due to 1986 being the end of the reappraisal cycle and taxpayers receiving their new assessment notices.
HOW MONTANA PROPERTY VALUATION COMPARES WITH OTHER STATES

During our audit we contacted thirteen states to gather information on various property valuation functions at the state level. The information was used as a basis for comparison with Montana's Property Assessment Division and its present role.

We contacted thirteen states with property tax collections per capita similar to Montana for comparative information on property valuation programs in their state. The following chart compares the organization for Montana's property valuation with that of the other states contacted. As shown by the following chart Montana is unique in regard to its county organization with an assessor and an appraiser. The other states contacted have one position at the county level and generally refer to the position as an "assessor."
MONTANA VS. THIRTEEN OTHER STATES

<table>
<thead>
<tr>
<th>Category</th>
<th>States Contacted</th>
<th>Montana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibility</td>
<td>13 - County Level Control</td>
<td>State - Administers/Directs</td>
</tr>
<tr>
<td>County Organization</td>
<td>6 - Elected Assessors 3 - Appointed Assessors 4 - Elected &amp; Appointed Assessors at County Level</td>
<td>Elected County Assessors (generally) &amp; State Appraisers</td>
</tr>
<tr>
<td>Reappraisal Cycle</td>
<td>2 - Six years 1 - Five years 3 - Four years 2 - Two years 2 - Annual 1 - 80% annually 2 - None</td>
<td>Five years</td>
</tr>
<tr>
<td>Certification Requirements for Assessment Personnel</td>
<td>8 - Yes 5 - No</td>
<td>Appraisers - Yes Assessors - No</td>
</tr>
<tr>
<td>State Monitoring Procedures</td>
<td>3 - Audits 2 - Sales Assessment Ratio Studies 1 - Field Reviews 2 - Reviews by Request Only 5 - None</td>
<td>Audits Limited Sales Assessment Ratio Studies Area Manager Reviews Work Progress Reports</td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor

Illustration 18

Montana (Property Assessment Division) also "controls" property valuation in the state, leaving the various counties the responsibility of carrying out its directives. Other contacted states generally only administer and support property valuation at the state level, leaving "control" to the counties.
CHAPTER III

MANAGEMENT CONTROLS OVER PROPERTY VALUATION

Article VIII, section 3, of the Montana Constitution says "The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law." The Constitution clearly establishes the state's role in property valuation.

Sections 15-8-101 and 15-9-101, MCA, state the Department of Revenue shall have full charge of assessing all property subject to taxation and shall adjust and equalize the valuation of taxable property among the counties, in the counties, and between individual taxpayers.

Our audit work in the area of property valuation indicates the state has made positive steps in attempting to equalize property valuation statewide; however, our audit work also indicates that perfect equalization has not and may never be attained. The discretion used to value property and adjustment of property valuations by county appraisers and assessors is the very core of the property tax system. Because of the "discretion factor" the system will continue to have inherent inequities. In an attempt to limit this discretion the property valuation process has gone through legislative changes, administrative rule-making, court decisions, and changes in department directives and control procedures.

During the audit we reviewed division controls over property valuation and the property reappraisal program for the cycle completed January 1, 1986. Major management controls were evaluated. We identified management control weaknesses which allow for appraisal and assessment errors and inconsistencies in valuation practices in and between counties. While controls over appraisers were in place, they often were not functioning adequately. In the case of assessors, controls were generally lacking. The following table summarizes our review of management controls over property valuation and the property reappraisal program.
<table>
<thead>
<tr>
<th>Management Control</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisory review</td>
<td>Supervisory review of field staff limited near the end of the reappraisal cycle.</td>
</tr>
<tr>
<td>Division communication</td>
<td>Communication between the division and county could be improved based on assessor/appraiser questionnaire results.</td>
</tr>
<tr>
<td>Organization and lines of authority</td>
<td>Assessors are elected officials and do not report directly to the department.</td>
</tr>
<tr>
<td>Real property mapping</td>
<td>Lack of adequate ownership mapping in many of the counties.</td>
</tr>
<tr>
<td>Division audit function and monitoring taxpayer reporting</td>
<td>All assessor offices not audited during cycle and only one appraisal office audited. Weaknesses in taxpayer monitoring were noted.</td>
</tr>
<tr>
<td>Planning (work plans, etc.)</td>
<td>Lack useful data on assessor work progress.</td>
</tr>
<tr>
<td>Staff evaluations and training</td>
<td>Assessor/staff not given job evaluations and weaknesses in assessor training noted.</td>
</tr>
<tr>
<td>Division activity at county tax appeals</td>
<td>No process to identify and address appraisal errors/inconsistencies at county tax appeals.</td>
</tr>
<tr>
<td>Management information</td>
<td>Comparative data on tax appeals and property exemptions not collected and analyzed.</td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor

Illustration 19
Without adequate management control over the property reappraisal program, inconsistencies in valuation practices have occurred and valuation errors have gone undetected. Improved management controls could reduce inconsistencies and valuation errors.

The valuation errors noted in this chapter were found during our limited field reviews conducted in a small number of counties. The errors were not found and corrected as part of the division management review process. Our field reviews were done to test management controls and not to determine the extent of errors in valuation practices. Division officials have noted that time and resource constraints, due to completion deadlines for property reappraisal and ongoing changes in property valuation laws by the Legislature, have prevented the division from improving management controls. The following sections discuss each of the areas where adequate management controls could improve the valuation process.

INCONSISTENCIES IN PROPERTY VALUATION PRACTICES

Appraisal methodology and valuation procedures are to be consistently applied to ensure equity within a property classification. The same methods of appraisal and assessment should be used in each county of the state per section 15-7-112, MCA. The Property Assessment Division developed the 1982 Montana Appraisal Manual to provide county staff specific appraisal guidelines so that appraisal work could be completed in a uniform manner. County appraisers collect base data on real property and complete a residential data collection form. Property data from the form is input into the division's computer assisted appraisal system and a property value is generated.

Before submitting the base property data, the appraiser places the real property (residence, for example) into a quality grade. The 1982 Montana Appraisal Manual has eight basic grades for single family residences as shown in the following illustration.
QUALITY GRADES FOR SINGLE FAMILY RESIDENCES

1. 1F-1 Sub Standard, single family residence.
2. 1F-2 Poor Grade, single family residence.
3. 1F-3 Fair Grade, single family residence.
4. 1F-4 Slightly below average, single family residence.
5. 1F-5 Average, single family residence.
6. 1F-6 Good, single family residence.
7. 1F-7 Very Good, single family residence.
8. 1F-8 Excellent, single family residence.

Source: Property Assessment Division - The 1982 Montana Appraisal Manual

Illustration 20

As the manual notes "grading would be a relatively simple process if all houses were built to conform to the base specifications outlined in the 1982 Montana Appraisal Manual." Appraisers, however, routinely adjust for this discrepancy by applying a higher or lower physical depreciation percentage or by applying a grade variation. A grade variation consists of adjusting the grade of a house by a percentage factor to acknowledge slight differences between houses in the same grade classification.

During our visits to county offices we noted some inconsistencies between counties in the methods and procedures used to: 1) figure depreciation; 2) adjust for grade variations; 3) determine land values; and 4) compute manual commercial property valuations. For example, appraisal staff in one county use a maximum of 40 percent for physical depreciation unless it can be documented that a higher depreciation percentage is warranted. In other counties depreciation percentages in the 70 to 80 percent range are commonly used on older residences. The following pictures illustrate some differences in the amounts of physical depreciation applied to "similar" houses in different counties.
RESIDENTIAL PROPERTY COMPARISONS

COUNTY A

Built in 1983

Typical/average construction

Quality Grade: 1F6 Good

Physical Depreciation: 11%

1986 appraised value: $52,915

COUNTY B

Built in 1983

Typical/average construction

Quality grade: 1F5 Average

Physical Depreciation: 1%

1986 appraised value: $55,042

Illustration 21
COUNTY C

Built in 1900

Typical/average construction

Quality grade: 1F3 Fair

Physical Depreciation: 35%

1986 appraised value: $21,789

COUNTY D

Built in 1900

Typical/average construction

Quality grade: 1F6 Good

Physical Depreciation: 80%

1986 appraised value: $24,376
Some county appraisal staff routinely adjust quality grades for structures while staff in other counties do little or no grade adjustments. The division's 1982 Montana Appraisal Manual shows an average single family residence as a 1F-5 grade. However, if an average house that is being appraised does not fit exactly into the 1F-5 category, the grade designation may be adjusted by use of a percentage factor. For example, a house may be graded a 1F-5 +5 which means the house is 5 percent better than a 1F-5 average house.

We found one county staff was adjusting to a higher grade if the percentage factor was halfway between two grades. For example, a 1F-5 +15 would be graded a 1F-6. (There are 29 percentage points within the grade 5 classification.) In other words, the appraiser seldom used the percentage factors between grades and opted to "round" up or down to the nearest grade. During our review we noted limited use of grade variations in three of five counties. The division noted that each of the counties we identified has used grade variations to some extent. We compared two of the counties and found one county had 6,080 improvements with 15.4 percent having a +/- 5 percent grade variation while the other county had 40,699 improvements with only .2 percent having a +/- 5 percent grade variation.

We also found a number of valuation practices performed in some counties and not in others. The developer's holding cost adjustment is given to a developer that still owns 50 percent or more of the lots in the development. We found this adjustment being applied in only one of the counties we visited. As a result of the adjustment the developer pays less property tax on the unsold lots than the owners of lots purchased from the same developer. We also noted one county appraisal supervisor who indicated that concrete paving is not routinely valued by appraisers in that county. In other counties we found that concrete paving was valued by appraisers.

Our review indicated that counties are using different methods to value land. For example, one county used a statistical
technique to estimate lot values. We found a subdivision in that county where lots of various sizes were all priced at $9,000 using the statistical technique. In another county an appraiser valued land at $7,000 a lot in a particular subdivision even though market data showed land sales from $10,000 to $13,000 per lot. The property value was computed per front foot based on sales data.

We also reviewed appraisal methods used by the division to value commercial properties. To ensure the processing of commercial property information was accurate, four commercial properties were valued using the Marshall Valuation Service's computer as well as manually. These properties were selected at random by a county appraisal supervisor and were valued by us, a certified division appraiser, and area managers. A comparison was made of the results and we found the valuations varied and the division appraiser's valuations did not agree with the Marshall Valuation automated results in any of the four cases. The following table shows a comparison of computer generated Marshall system valuations with the manual valuations. (The Marshall Computer System is discussed further on page 82.)

<table>
<thead>
<tr>
<th>Property</th>
<th>Marshall System Valuation</th>
<th>Division Appraisers' Manual Valuation</th>
<th>Area Managers' Manual Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$65,051</td>
<td>$56,223</td>
<td>$65,480</td>
</tr>
<tr>
<td>B</td>
<td>133,142</td>
<td>149,831</td>
<td>135,782</td>
</tr>
<tr>
<td>C</td>
<td>156,950*</td>
<td>199,969</td>
<td>199,952</td>
</tr>
<tr>
<td>D</td>
<td>11,265</td>
<td>6,922</td>
<td>11,485</td>
</tr>
</tbody>
</table>

*According to division officials the Marshall Computer System does not figure an interior finish construction which would have added about $43,150 to the Marshall System Valuation.

Source: Compiled by the Office of the Legislative Auditor

Illustration 23
Two different methods were used by the division appraiser and the area managers to compute the manual valuations. Depending on the method selected, the manual valuations could vary as the previous illustration shows.

Management control of appraisal activities between counties appears to be lacking, causing inconsistency in practices. Division officials noted plans to conduct audits of one-fourth of the appraisal and assessment offices annually and do more supervisory review during the reappraisal cycle started January 1986. Increased supervisory activity by the division and an increased audit function would provide some assurance the valuation process is uniformly applied. The increased supervisory and audit activity would also address the inconsistency of property valuation between counties and limit the potential for inconsistencies within a county.

**RECOMMENDATION #1**

WE RECOMMEND THE DIVISION INCREASE SUPERVISORY AND AUDIT REVIEW OF COUNTY OFFICES.

**DIVISION COMMUNICATION WITH COUNTY STAFF**

Our audit work and questionnaire responses indicated division communication on policies and procedures and timeliness of responses to county staff requests for information were not adequate. We found county staff were concerned with the clarity and frequency of changes of division policies and procedures. For example, policy changes during the reappraisal cycle included procedures for valuing aircraft, boat licensing, and assessment notification policies. Interpretation problems concerning mobile home valuation and appraisal of nonproductive parcels of land less than 20 acres in size have also occurred.

Problems with policy changes and interpretation can result in additional work for county staff. For example, county staff noted the division sends them property data processing printouts with no instructions. During our field visits, county appraisal staff and county tax appeal board members noted little direct communication
from the division on how to proceed on tax appeals related to nonproductive parcels of land less than 20 acres in size. (The June 1986 Special Session passed Senate Bill 20 which changed eligibility requirements for agricultural land classification.)

County appraisers and assessors also indicated the division was untimely in responding to their requests for information. Eight of the twelve counties visited cited examples of requests for clarification going unanswered and delays in receiving division valuations, appraisal manuals, and valuation rolls. For example, 25 percent of county assessors responding to our survey questionnaire indicated that the division did not return phone calls.

Questionnaire results indicated that 75 percent of the assessor offices and 28 percent of appraiser offices believed communication between the division and the counties needs improvement. County staff suggested that more direct and timely communication is needed.

A division official indicated a lack of staff, time, and resources have prohibited the division from obtaining input from county staff pertaining to policy changes. The official noted frequent legislative changes, Administrative Procedure Act requirements, and a lack of electronic communication capability, which would allow messages and data to be transmitted between the division and county offices more efficiently, have contributed to the communication problems. The official noted that every legislative session since 1981 and most special sessions have made significant changes to Montana's property assessment and appraisal system. Property classes have been added and deleted; tax rates for classes of property have been changed; methods of valuing property have been significantly altered; and properties have been exempted, placed on a fee basis, and fees adjusted.

With these types of changes, effective communication becomes even more important to the completion of property valuation activities. County staff are regularly in contact with the public regarding property valuation issues. When procedural errors due to poor communication occur, it can affect the taxpayer's perception of the equity and accuracy of property valuation and reappraisal efforts.

42
The division has attempted to improve communication with work group sessions, more appraisal staff meetings, and clarification of job duties and responsibilities. However, despite division efforts, communication concerns still exist.

An apparent communication problem seems to be in the assessment area. Seventy-five percent of the assessor offices noted better communication is needed. Assessment issues such as valuing aircraft, boat licensing, assessment notification, and mobile home valuation were noted areas of concern. According to assessors, the division's Assessor School has not been used to adequately communicate policies and procedures, and concerns identified at the school are not resolved by the division.

The division should reevaluate current communication methods by surveying county staff to identify needs and obtain county level recommendations. The division should also improve procedures to ensure county requests for information are answered in a timely manner.

RECOMMENDATION #2
WE RECOMMEND THE DIVISION:
A. REEVALUATE CURRENT COMMUNICATION METHODS AND OBTAIN COUNTY LEVEL RECOMMENDATIONS.
B. IMPROVE PROCEDURES TO ENSURE COUNTY REQUESTS FOR INFORMATION ARE ANSWERED IN A TIMELY MANNER.

COUNTY ORGANIZATION AND LINES OF AUTHORITY

Article VIII, section 3, of the Montana Constitution mandates the state shall appraise, assess and equalize the valuation of all property. Thus, the state's role as central authority in the valuation process is clearly established.

Central authority in any organization requires some means of direct control over all aspects of the organization's activities. The Property Assessment Division does not have direct control over county assessors and their staff. County assessors, in most
instances, are elected officials. Because of the statutory provisions that provided for elected or appointed assessors, the county government has more control over assessors than the state.

Division officials have indicated elected assessors and their staff are outside the control of the division. The division cannot require the certification of assessors or their staff. Division personnel cannot evaluate the performance of the elected officials and require appropriate corrective action. Division officials are unsure of the appropriate procedures to follow to improve the performance of assessment staff.

Our audit work confirmed division concerns with the organizational structure of the valuation process. We noted limited direct supervision of county assessors and staff by division management. There was also a lack of usable work progress data which would provide the division with important information on the timely completion of valuation duties. Without timely work progress data the division cannot adequately monitor county valuation work effort and assign additional staff to counties that are behind.

Coordination and communication between county appraisal offices and assessors offices could be improved. Specific coordination problems resulted in the following:

- Duplication of effort with both assessor and appraiser offices doing mapping and ownership changes, records management and maintaining property valuation computerized data.

- Inadequate cooperation between the assessor and appraiser offices. For example, in one county an appraisal office closed its doors early and did not answer phones in order to complete reappraisal work. As a result, the assessor's office was not able to contact the appraisal office for needed information. In some counties, appraisers have limited or no access to county computers and related property valuation data.

- Communication problems (as noted in previous section) and potential for loss of information from transferring or communicating information between assessor and appraisal offices.

During our county reviews, assessors and appraisers commented that for the sake of efficiency a single position is necessary to coordinate county appraisal and assessment activities.
These persons believe that one position would facilitate the sharing of staff, better communication between the two functions, and improvement in overall efficiency and management. We were unable to review the efficiency of a combined staff versus separate appraisal and assessment offices. Such a review would require an extensive amount of on-site observation and work sampling at appraisal and assessment offices and at combined offices during the five year cycle. Different types of tasks are performed during the early part of the cycle compared to the latter part of the cycle. Our audit field work was only conducted during the latter part of the past reappraisal cycle due to the timing of our audit. However, interviews with county staff indicated that a combined office has merit.

Staff in a currently combined office noted areas where a combined office is more efficient than separate appraisal and assessment offices including:

- The ability to use clerks who typically do assessment work (i.e., assessment staff compute market and taxable values for personal property and taxable value for real property) to help complete real property appraisal work. A county official noted that reappraisal work would not have been completed on time without the flexibility to assign staff in this manner.

- More time and effort of appraisal/assessment clerks is used to conduct field work to verify personal property reported by taxpayers.

It appears as long as assessors remain elected officials there will continue to be inadequate organizational control. This inadequacy will continue to facilitate inefficiencies and communication and coordination problems. Since the statutory requirement of a county assessor being responsible only to the electorate or the county commissioners appears to be the cause of valuation process inefficiencies, we believe legislation should be enacted to place the assessment function under the direct control of the Department of Revenue.
RECOMMENDATION #3
WE RECOMMEND LEGISLATION BE ENACTED TO PLACE THE ASSESSMENT FUNCTION UNDER DIRECT CONTROL OF THE DEPARTMENT OF REVENUE.

TRAINING AND CERTIFICATION

During the audit we reviewed division assessor and appraiser training and certification programs. Each area is discussed in the following sections.

Appraisers

Appraiser certification requirements are discussed in sections 15-7-105 through 15-7-107, MCA. Instruction, examination, and certification of residential, commercial, industrial and agricultural appraisers is provided through International Association of Assessing Officers (IAAO) courses and a related division requirement for a narrative appraisal report.

Appraiser training and certification are also tied to on-the-job experience appraisers obtain as they attain certification in various types of appraisals. Persons who are appraisers with the division generally take steps to become certified in each area of appraisal in the following order:

1. Residential
2. Commercial
3. Agricultural
4. Industrial appraisal

Presently, there are 122 certified appraisers employed by the division. The process followed to become certified consists of passing IAAO exams, completing an appraisal narrative report, and one year of appraisal work experience.

Conclusion

We concluded that division training and certification of appraisers was adequate.
Assessors

Section 15-8-103, MCA, states that the department shall conduct assessing schools. Property Assessment Division staff conduct two sessions of the Assessor's School each year.

During our audit work we attended the division's Assessor School. We observed the session and gathered comments from county assessors. We found improvements could be made in the Assessor School to help provide adequate training for county assessors. Our review noted poor scores on Assessor School exams and concerns related to us through a survey of county assessors.

Test scores for the 1985 school indicate some assessors and their staff may not understand some personal property assessment practices. The following charts show the county assessor/assessor staff test scores on exams given at the 1985 Assessor School and the 1986 Appraisal School. The 1986 school included both assessment and appraisal personnel and was designed to provide cross-training for both staffs.
1985 ASSESSOR SCHOOL TEST SCORES

<table>
<thead>
<tr>
<th></th>
<th>County Assessor/Assessor Staff Test Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pass*</td>
</tr>
<tr>
<td>October 1985 Assessor School</td>
<td>52%</td>
</tr>
<tr>
<td>November 1985 Assessor School</td>
<td>66%</td>
</tr>
<tr>
<td>Overall</td>
<td>58%</td>
</tr>
</tbody>
</table>

*Passed all examinations with a score of 70% or better

Source: Compiled by the Office of the Legislative Auditor

Illustration 24

1986 APPRAISAL SCHOOL TEST SCORES

<table>
<thead>
<tr>
<th></th>
<th>Assessment/Appraisal Staff Test Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pass*</td>
</tr>
<tr>
<td>Assessors</td>
<td>63%</td>
</tr>
<tr>
<td>Deputies</td>
<td>83%</td>
</tr>
<tr>
<td>Assessment Staff</td>
<td>100%</td>
</tr>
<tr>
<td>Appraisal Staff</td>
<td>89%</td>
</tr>
<tr>
<td>Helena Staff</td>
<td>89%</td>
</tr>
<tr>
<td>Overall</td>
<td>77%</td>
</tr>
</tbody>
</table>

*Passed all examinations with a score of 70% or better

Source: Compiled by the Office of the Legislative Auditor

Illustration 25

Our questionnaire asked assessors to rate aspects of the 1985 school. Results indicated the division could improve the Assessor
School in several areas. The Assessor School questionnaire results are summarized in the following illustration.

### QUESTIONNAIRE RESULTS - 1985 ASSESSOR SCHOOL

<table>
<thead>
<tr>
<th>Category</th>
<th>Excellent or Above Average</th>
<th>Average</th>
<th>Below Average or Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topics</td>
<td>17.3%</td>
<td>50.0%</td>
<td>32.7%</td>
</tr>
<tr>
<td>Availability of Courses</td>
<td>11.4%</td>
<td>54.5%</td>
<td>34.1%</td>
</tr>
<tr>
<td>Class Size</td>
<td>15.7%</td>
<td>56.9%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Visual Aids</td>
<td>12.0%</td>
<td>62.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>Course Content</td>
<td>13.7%</td>
<td>60.8%</td>
<td>25.5%</td>
</tr>
<tr>
<td>Overall Rating of Assessor School</td>
<td>15.4%</td>
<td>61.5%</td>
<td>23.1%</td>
</tr>
<tr>
<td>Clarity of Policies and Procedures</td>
<td>15.7%</td>
<td>64.7%</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

*Percentages adjusted for nonresponse

Source: Compiled by the Office of the Legislative Auditor

Illustration 26

During our county visits, assessors noted that levels (such as beginner, intermediate, and advanced) of training should be offered at the school. Such a structure would direct class resources to specific levels of knowledge and experience and reduce redundant material. In addition, the assessors stated evaluations of the Assessor School training by the participants would provide useful input to the division. We found that assessor input, through class evaluations, was obtained by division officials during the 1986 school. County assessors in four of the eight counties visited noted that clarity of policies and procedures is poor and concerns that come up at the school are usually not resolved by the division.

Differences in county assessment practices were not formally resolved by division staff at the Assessor School or by division management. Without a formal process to clarify differences in county practices identified at the school, inconsistencies in
methods and assessment errors by county staff could more likely occur.

We believe the Assessor School training could be more effective if training goals and objectives were established. In addition, training should be designed to address areas where valuation errors or inconsistencies in valuation have occurred. The division should also use the school as a forum to document differences in county practices and relate division interpretations of current policies and procedures.

RECOMMENDATION #4
WE RECOMMEND THE DIVISION:
A. ESTABLISH TRAINING GOALS AND OBJECTIVES FOR ASSESSOR SCHOOL TRAINING.
B. USE THE ASSESSOR SCHOOL AS A FORUM TO DOCUMENT DIFFERENCES IN COUNTY PRACTICES AND CLARIFY POLICIES AND PROCEDURES.

MONITORING TAXPAYER REPORTING

During our field visits, we identified a number of concerns related to county efforts to monitor taxpayer reporting. We also found some personal property that was not on the tax rolls in the counties we visited.

Monitoring Taxpayer Reporting By County Staff

During our county visits we examined procedures used to monitor taxpayer reporting. We found that assessors in six of the eight counties visited do little or no travel in their counties to identify personal property not on the tax rolls. For example, one county assessor who was elected to office in 1983 had identified 250 businesses with personal property not on the tax rolls his first year in office. However, the assessor noted that he had done limited travel since that time to identify personal property not on
the tax rolls. From July 1983 to January 1985, the county assessor had only $164 of personal travel expenditures as a result of traveling the county to identify property not on the tax rolls.

We also found that Department of Livestock forms and permits are used sparingly to identify livestock moving in and out of various counties throughout the state. Assessors in two of the eight counties visited noted little or no use of the livestock forms or permits. Several other assessors noted that a summary report on the livestock forms and permits would be more useful. In addition, two assessors said they did not really know how to use the livestock forms and permits.

Our questionnaire results also indicated that some county assessors were doing little to monitor taxpayer reporting. The following chart summarizes our questionnaire results related to assessor efforts to monitor taxpayer reporting.

| NUMBER OF COUNTY ASSESSOR OFFICES USING SELECTED TAXPAYER MONITORING METHODS |
|-------------------------------------------------|---------------|
| Number of Assessors*:                          |               |
| Using                                          | Not Using     |
| County Travel                                  | 25            | 28            |
| Livestock permits and forms                    | 18            | 35            |

*Figures indicate the total number of assessor offices responding to our questionnaire.

Source: Compiled by the Office of the Legislative Auditor

Illustration 27

Other monitoring techniques are not used by county staff. An example would be comparing personal property reported by similar businesses. With this type of monitoring technique, limited county resources could be directed at conducting on-site reviews where under-reporting was suspected. The reasons for variations
in reporting by similar businesses could then be determined. This would encourage taxpayers to accurately report their personal property.

During the 1985 Assessor School, division officials identified several organizations (labor unions, political committees, etc.) that have personal property which county assessors have not been putting on the tax rolls. We reviewed personal property files in two counties to determine if the county assessor had identified personal property for these organizations and included it on the tax rolls. Our review consisted of selecting a judgmental sample of organizations that are not exempted per section 15-6-201, MCA. The results of our review are summarized below.

<table>
<thead>
<tr>
<th>MISSED PERSONAL PROPERTY FOR SELECTED ORGANIZATIONS REVIEWED*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Organizations Reviewed</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>County A 8</td>
</tr>
<tr>
<td>County B 18</td>
</tr>
<tr>
<td>Totals 26</td>
</tr>
</tbody>
</table>

*County files for 1983, 1984, and 1985 were reviewed for information indicating that the organization's personal property was on the tax rolls.

Source: Compiled by the Office of the Legislative Auditor

Illustration 28

Our limited review found that 50 percent of the organizations examined did not have their personal property on the county tax rolls. The division administrator noted that assessor audits have identified personal property not on the tax rolls in some of the counties audited.

County staff noted that time and resource constraints have limited the ability of counties to effectively monitor taxpayer reporting. During the property reappraisal cycle that ended
January 1, 1986, the division conducted audits of assessor offices in 26 counties, less than half of the counties in the state. The division conducted only one audit of an appraisal office during the reappraisal cycle. The recent reorganization of the division, which committed more staff to the Audit Bureau, could lead to improved monitoring efforts.

The division should implement a formal monitoring program as part of its audit program. The division and counties have not developed a consistent and effective approach to monitoring taxpayer reporting. Some counties are monitoring taxpayer reporting and some are not. In addition, monitoring procedures vary from county to county. The formal monitoring program would provide more assurance that taxpayer reporting is accurate and that missed property is identified.

**RECOMMENDATION #5**

WE RECOMMEND THE DIVISION IMPLEMENT A FORMAL MONITORING PROGRAM AS PART OF ITS AUDIT FUNCTION.

**REAL PROPERTY MAPPING**

The Department of Revenue is required to provide maps, showing private lands owned or claimed in the county, for the use by its agents per section 15-8-102(3), MCA. The International Association of Assessing Officers standards note that maps are an indispensable tool for property valuation. It is very difficult to value a property that cannot be properly identified on mapping records.

Based on our audit work and appraisal staff responses to our mapping questionnaire, we found that the state has not provided 71 percent of the counties with maps. Counties are using maps obtained from a number of different sources such as county, city, and federal agencies. Seventeen percent of the counties indicated they do not have a map for all portions of their county, and 29 percent of the county appraisal supervisors believe that maps are not current. Seventeen percent of the counties noted that
they are not able to locate all parcels of property in their county with current maps.

Without adequate ownership maps, property boundaries cannot be accurately located which increases the chance of missing property. In addition, real property may not be properly recorded which may result in property not included in the tax base. For example, a mapping project in Silver Bow county identified $1 million in property not properly recorded on the tax rolls. One drafter started in 1978 on the Silver Bow mapping project which is about 80 percent completed at this time. In Cascade County a timber mapping project located 46,917 acres of timber land not on tax rolls.

The division has requested funding from the Legislature to update county mapping records. Division officials noted that adequate funding for mapping has not been provided. In the past, division officials reclassified three clerk positions into drafting positions. Presently, there are two drafters in Billings and one in Butte. A division official noted that drafting staff in each area manager region (located in the larger Montana cities) are needed. The division should continue to request funds for mapping or continue to reclassify vacant positions to drafting positions.

**RECOMMENDATION #6**

**WE RECOMMEND THE DIVISION CONTINUE TO REQUEST FUNDING FOR A STATEWIDE MAPPING PROJECT OR RE-CLASSIFY VACANT POSITIONS.**

**TAX APPEALS PROCESS**

During our field visits we observed County Tax Appeal Board (CTAB) hearings. We found that the division does not have a formal process to identify and address appraisal errors and inconsistencies in county valuation practices which are identified during the appeals process.
We noted procedural inconsistencies during our review. For example, county appraisal staff are not using comparable sales and comparable appraisals in a consistent manner when defending their appraisal work at CTAB hearings.

A goal of our audit was to determine the effectiveness of the appeals process. As stated earlier, both county and state tax appeal hearings were conducted according to state law and specific procedures were followed. However, we did identify a concern with the division's representation at various hearings. Hearings in twelve counties were reviewed during the course of our audit. In each hearing, division representatives presented many different types of information to the county boards to support appraised values. Some used comparable sales. Some used comparable appraisals. Some presented nothing at all. At times, little documentation was entered into the record during the hearings. There was little consistency in procedures used to defend appraisals throughout the observed counties.

Based on the results of our CTAB questionnaire, we found the majority of tax appeal boards rely heavily on information presented to them by division personnel. Because of the many differences in the quantity and quality of information provided, the boards may not be as well informed as needed - causing decisions to be made without full knowledge.

Use of Comparables

When defending appraisals at CTAB hearings some county staff are not following informal procedures suggested by the division. For example, a division official noted that county staff should be using comparables "near" the property reappraisal base year date which is January 1982. He also noted that four comparable appraisals should be used by county staff to support their appraised values at a CTAB hearing. However, there are no formal written criteria or procedures for county staff to follow regarding use of comparables at CTAB hearings. Some county staff use comparable sales, some use comparable appraisals, and
some did not use any comparables at all. Dates of the comparable sales used at the CTAB hearings we attended ranged from July 1976 to August 1985.

Without uniformity in the market information from comparable sales or uniform cost-based information from comparable appraisals, there is little assurance that CTAB decisions adjusting appraised values are equitable. In fact, inconsistencies in the use of comparables by county appraisal staff at the CTAB hearings may cause inequity between and within counties. For example, we noted cases at CTAB hearings where a taxpayer used his neighbor's property as a comparable and received an adjustment. However, similar properties were not subsequently reviewed by the division and adjusted. The division should develop a written policy for county appraisal staff use of comparables to ensure consistency.

RECOMMENDATION #7
WE RECOMMEND THE DIVISION DEVELOP A WRITTEN POLICY FOR COUNTY APPRAISAL STAFF USE OF COMPARABLES.

Examples of Errors/Inconsistencies at CTAB Hearings

Our observations at the CTAB hearings and questionnaire comments by CTAB members indicate some significant errors and inconsistencies in the valuation process have occurred. For example, we noted instances where appraisers did not do follow up with on-site visits to verify data the taxpayer revealed at the CTAB hearing. We found examples where land and improvements were significantly overvalued or undervalued. In one case some tracts of land were valued at $39,000 which were later revalued by the appraiser at $2,400. We noted a case where a building was valued by an appraiser in 1984 and the taxpayer noted that the building was not "there" in 1984. Some CTAB members noted that appraisers had indicated to them that all property was not physically appraised. In some cases data was gathered from old property data cards.
Division management should attend CTAB hearings, as feasible, to identify major appraisal errors and inconsistencies in county valuation practices. These errors and inconsistencies could then be addressed, within the constraints of current resources, by the division with appropriate policies and procedures.

While the tax appeal process identifies and corrects a number of the valuation errors, it should be noted that only a small portion of the taxpayers appeal their appraised values. It should also be noted that the CTABs do not resolve the inconsistencies in valuation practices that arise during the tax appeals process. Rather CTABs only correct appraisal errors for those taxpayers who appealed their appraisals.

RECOMMENDATION #8
WE RECOMMEND DIVISION:
A. ATTEND CTAB HEARINGS, AS FEASIBLE, TO IDENTIFY MAJOR APPRAISAL ERRORS AND INCONSISTENCIES IN COUNTY VALUATION PRACTICES.
B. IMPLEMENT APPROPRIATE POLICIES AND PROCEDURES THAT ADDRESS ERRORS AND INCONSISTENCIES IDENTIFIED AT CTAB HEARINGS.

VERIFICATION OF MARKET SALES DATA

International Association of Assessing Officer's (IAAO) standards suggest that the accuracy of sales data be determined. The IAAO noted that sales information should be confirmed or verified directly by contacting the buyer, seller, or both. Without accurate sales data, there is little assurance that related sales assessment ratio study results are correct or that comparable sales information, based on unverified sales, introduced at a CTAB hearing promotes equitable decisions by the CTAB.

During our field visits we noted that some counties verify sales data through the use of a verification form while some verify with a personal phone call. We also found that some counties do little to verify sales data.
As a result of the constraints of getting reappraisal completed, some sales were not verified. Division and county staff noted that sales were verified as time and staff were available.

The division should routinely sample sales to determine if verification screening procedures are followed uniformly by county appraisal staff. The division should also establish written procedures for validating (determining if the sale was an arms length transaction) sales data from Realty Transfer Certificates (RTCs).

Some county staff indicated that they were not sure to what extent sales price data off Realty Transfer Certificates can be used at county tax appeal hearings. Section 15-7-308, MCA, states that RTC data shall be held confidential. However, the last part of section 15-7-308, MCA, notes that the confidentiality provision shall not apply to compilations from the RTCs or to summaries, analyses, and evaluations based upon such compilations. In some instances sales data, such as sales date, sale price, and address or legal description of the improvement is submitted by appraisal staff at the CTAB hearing.

RECOMMENDATION #9

WE RECOMMEND THE DIVISION:

A. ROUTINELY SAMPLE SALES TO DETERMINE IF VERIFICATION SCREENING PROCEDURES ARE FOLLOWED UNIFORMLY BY COUNTY APPRAISAL STAFF.

B. DEVELOP WRITTEN PROCEDURES FOR VALIDATING SALES DATA FROM REALTY TRANSFER CERTIFICATES.

C. IMPLEMENT PROCEDURES DEFINING COUNTY STAFF USE OF REALTY TRANSFER CERTIFICATES.

MANAGEMENT INFORMATION

During the audit we requested comparative data on county and state tax appeals and on property tax exemptions. Much of this data was not maintained or analyzed by the division. Summary data is not readily available without a review of all agency case files. For example, the number of tax appeals by type by
county tax appeal board was not readily available. In addition, we could not obtain division data to determine if property tax exemptions have significantly increased from one year to the next or from one reappraisal cycle to the next. The division should have a system to collect and analyze property information such as tax appeals and property tax exemptions.

Without this type of comparative data and related analysis, the division cannot easily manage tax appeal and tax exemption case activity because the status of case reviews is not readily known at a given time. Comparative data may help the division and the Legislature identify areas of concern such as a significant increase in the number of exempted properties or increases in certain types of tax appeals in a particular county possibly related to use of different appraisal procedures.

Staff responsible for tax appeals and tax exemption filing noted that reappraisal time constraints and lack of an automated system to collect the data has prohibited the division from doing more than minimal filing of the tax appeals and tax exemption information.

The division should develop a better system of logging tax appeals and tax exemptions data to allow for comparisons and related analysis. This type of information could be used to identify areas of the property valuation process that need improvement.

**RECOMMENDATION #10**

WE RECOMMEND THE DIVISION IMPLEMENT A MANAGEMENT SYSTEM TO COLLECT AND ANALYZE PROPERTY INFORMATION SUCH AS PROPERTY TAX APPEALS AND PROPERTY TAX EXEMPTIONS.
Available Resources to Complete Property Reappraisal

During the audit we reviewed appraisal staff workloads. We also determined the number of improvements which would have to be completed per day per appraiser to physically appraise all improvements during the five-year reappraisal cycle. We found that an average of 3.88 improvements per day would have to be completed by each appraiser in order to physically appraise all improvements in the state.

However, the number of improvements that need to be completed per day per appraiser during the cycle varies from .47 to 8.49 improvements depending on the county. Therefore, allocation of appraisal resources between counties to complete reappraisal in a timely and efficient manner is an important factor. The following chart shows the number of improvements using fiscal year 1985-86 data that would have to be done per day per appraiser by county in order to complete reappraisal work within the mandated five-year cycle. It should be noted that our analysis and chart includes only improvements. Land parcels, agricultural land (about 55 million acres), timberland, and new construction are not included.
### Number of Improvements Per Day Per Appraiser by County Necessary to Complete Reappraisal During Five-Year Cycle

<table>
<thead>
<tr>
<th>County</th>
<th>Improvements</th>
<th>Number of Appraisers</th>
<th>C</th>
<th>Number of Parcels Per Appraiser (Avg)</th>
<th>D</th>
<th>Cycle Parcels Per Day (1/2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beachwood</td>
<td>6,090</td>
<td>1</td>
<td></td>
<td>6,090</td>
<td>5.07</td>
<td></td>
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<tr>
<td>Big Horn</td>
<td>4,392</td>
<td>1</td>
<td></td>
<td>4,392</td>
<td>3.82</td>
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<tr>
<td>Blaine</td>
<td>3,310</td>
<td>1</td>
<td></td>
<td>3,310</td>
<td>2.92</td>
<td></td>
</tr>
<tr>
<td>Broadwater</td>
<td>2,140</td>
<td>1</td>
<td></td>
<td>2,140</td>
<td>1.78</td>
<td></td>
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<tr>
<td>Carbon</td>
<td>8,041</td>
<td>1</td>
<td></td>
<td>8,041</td>
<td>6.70</td>
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<tr>
<td>Carter</td>
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<td>1</td>
<td></td>
<td>1,370</td>
<td>1.14</td>
<td></td>
</tr>
<tr>
<td>Cascade</td>
<td>40,699</td>
<td>9</td>
<td></td>
<td>4,522</td>
<td>3.76</td>
<td></td>
</tr>
<tr>
<td>Chouteau</td>
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<td>1</td>
<td></td>
<td>5,578</td>
<td>4.69</td>
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<tr>
<td>Coaster</td>
<td>6,776</td>
<td>2</td>
<td></td>
<td>3,388</td>
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<tr>
<td>Daniels</td>
<td>2,745</td>
<td>1</td>
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<td>2,745</td>
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<td>Dawson</td>
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<td>2</td>
<td></td>
<td>3,088</td>
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</tr>
<tr>
<td>Deer Lodge</td>
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<tr>
<td>Sweet Grass**</td>
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<td>-</td>
<td></td>
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<td>Teton</td>
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<td>3.77</td>
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<td>Tiloa</td>
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<td>Valley</td>
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<td>Yellowstone</td>
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<td>10</td>
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<td>4,183</td>
<td>5.09</td>
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</tr>
</tbody>
</table>

Total/Average   | 521,890      | 112                  |   | 4,600***                             | 3.88*** |                              

*Based on 240 days per year multiplied by the 5-year reappraisal cycle (240 X 5 = 1200). The 240 days is an estimate based on days off for vacation, sick leave, etc.

**Park County appraisal staff complete real property appraisals in both Park and Sweet Grass Counties.

***These figures represent averages.

Source: Compiled by the Office of the Legislative Auditor

Illustration 29
Appraiser responses to our mapping questionnaire indicated that, on the average, an appraisal (land, residences, commercial) takes three hours to complete. Based on this average, counties requiring more than 2.7 appraisals per day per appraiser (8 hours per day/3 hours per appraisal) will not be able to appraise all improvements within the five-year cycle. In fact, the number of appraisals that must be completed each day is even larger because of delays in starting the present cycle and because land parcels must also be done.

The 1986-1990 reappraisal cycle has recently started. Due to Legislative changes from the June 1986 Special Session and other factors which delayed completion of the cycle ending in December 1985, appraisal field work for the new cycle has yet to begin. This will result in an actual cycle of less than five years for the counties to complete their work. Section 15-7-111, MCA, notes that "no less than 20 percent of the property in each county shall be revalued each year" so that all taxable property within the state is revalued at least every five years. The division will not meet this goal for the first year of this cycle - 1986.

Division administrative rules include a goal of the division to complete ten residential appraisals per day per appraiser assigned residential responsibilities and two commercial appraisals per day per commercial appraiser. This goal appears unrealistic based on the time appraisers say they needed to actually complete an appraisal which includes travel, inspection, and completion of property record cards. Estimates from appraisers indicate it takes an average of three hours per appraisal.

Division officials indicated that reappraisal completion deadlines and lack of resources prohibited them from doing a better job on property reappraisal during the previous cycle. Appraiser mapping questionnaire responses indicated that appraisers in 9 of the responding counties did not physically inspect all improvements (i.e., homes, commercial buildings, etc.) in their counties during the cycle. Based on our review of division compensatory time records as of September 3, 1986, we found 13 of 35 division employees in our sample had compensatory time balances over 100 hours. We
noted the attorney for the division had a compensatory time balance of 1,158 hours and the chief of the Residential-Commercial Property Bureau had a balance of 564 hours.

CONCLUSION

Since most field appraisal work was completed prior to our audit visits, we were only able to observe a minimal amount of field appraisal work. Therefore, we were unable to determine an accurate estimate of time and resources needed to complete reappraisal responsibilities, and to determine if the division effectively allocated available resources between counties during the entire reappraisal cycle. However, the available information indicates the division, with current resources and present responsibilities, will not be able to adequately complete property reappraisal in a timely manner as required by legislative mandates. With less staff and time to complete reappraisal during the 1986-1990 cycle, the division's ability to effectively address other reappraisal problems which may occur may also be affected.
CHAPTER V

PROPERTY TAX EXEMPTIONS

Property tax exemption status is generally granted to non-profit, public service type organizations and individuals. Exempt status is given to reduce the tax burden placed on these groups which are not in existence for profit. Montana currently allows 37 categories of property tax exemptions. Some examples are:

1. the property of federal, state, county, city, and town governments, and school districts;
2. public libraries;
3. religious buildings and furnishings;
4. property not maintained and operated for private or corporate profit;
5. institutions of purely public capacity; and
6. community service buildings and one acre of land.

Appendix C lists each of the 37 categories presently exempted by Montana law.

To obtain a property tax exemption a person or organization must first complete an exemption application. This application along with supporting documentation (articles of incorporation, resident tax exempt status, title, photo, etc.) is submitted to the assessor (for personal property) and appraiser (for real property) in the county where the property is located. This information is forwarded to the Property Assessment Division where a final determination is made. Upon determination, the property is either taken off the tax rolls (if exemption is granted) or is kept on the rolls (if exemption is denied). If the application for exemption is denied, the decision can be appealed to the State Tax Appeal Board.

Once granted, an exempted property remains as such until its ownership or status changes. During our review, we found no
specific procedure or process used at the county level to ensure 
the status of exemptions has not changed. Our questionnaire 
results indicate that 76 percent of appraisers and 80 percent of 
assessors actually review their county's exemptions at least once 
every two years.

We reviewed a sample of 28 current exemptions during our 
county visits and found concerns with 3 of the exemptions. For 
example, one property presently exempted should not have quali-
fied for exempt status. Application documentation for one exemp-
tion could not be found in the division's files. Another exemption 
was granted in 1977 and had not been reviewed since to determine 
if it was still eligible. The market value of the exempt property 
not on the county tax rolls exceeds $600,000 for just these three 
properties.

We believe that each of the above three situations could have 
been identified with the use of an annual review procedure. The 
responsibility of granting or denying exemptions would still remain 
with the division to ensure consistency. However, each county 
would be required to take a more active role in the exemption 
process.

Each county appraiser and assessor should maintain a current 
listing of all exemptions within their counties. We did not find 
current exemption listings during our county visits. Annually, 
each owner of exempted property could be asked for any changes 
occurring during the past year (such as purchases/sales of equip-
ment, additions/deletions of buildings, etc.). These changes could 
be reviewed at the county level by the appraiser or assessor. If 
the property owner has changed, the new owner would be asked to 
reapply for exempt status.

Most county staff we contacted during our field visits believe 
such a procedure would be feasible. Division personnel also noted 
that the annual review would be useful. However, some reserva-
tions regarding response rates and accuracy were expressed.

Overall, the use of an annual review process would give the 
counties and the division much better assurance that the exempt
classification of properties is correct and periodically reviewed. In addition, current exemption lists would be maintained.

**RECOMMENDATION #11**

WE RECOMMEND THE DIVISION:

A. MAINTAIN CURRENT LISTS OF PROPERTY EXEMPTIONS.

B. IMPLEMENT AN ANNUAL REVIEW PROCESS WHICH WILL PROVIDE AN UPDATE OF ALL GRANTED EXEMPTIONS.
CHAPTER VI

DIVISION AND COUNTY

DATA PROCESSING

The Property Assessment Division currently uses extensive computer programs to administer the property valuation function. Data relating to most types of property is contained on either microcomputers or the state's mainframe at the division level while thirty-eight counties, each with their own systems, have property data on their computers. A duplication of effort exists, since both state and county data processing systems generally store some of the same types of property valuation data. The remaining counties that do not have data processing systems manually record all property valuation data. The following chart details where computerized property information is actually located.

DATA PROCESSING SYSTEMS WHERE PROPERTY DATA IS LOCATED

<table>
<thead>
<tr>
<th>Type</th>
<th>System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Property</td>
<td>County Computers</td>
</tr>
<tr>
<td>Real Property Appraisals</td>
<td>State Mainframe/County Computers</td>
</tr>
<tr>
<td>Utility Assessments</td>
<td>State Mainframe</td>
</tr>
<tr>
<td>Centrally Assessed Property</td>
<td>Personal Computers</td>
</tr>
<tr>
<td>Mobile Machinery &amp; Equipment</td>
<td>Personal Computers</td>
</tr>
<tr>
<td>at Industrial Plants</td>
<td>Personal Computers</td>
</tr>
<tr>
<td>Timber</td>
<td>Marshall Valuation Service</td>
</tr>
<tr>
<td>Commercial Property</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled by the Office of the Legislative Auditor

Illustration 30

At this time data on agricultural land is not recorded on either the division (state) or county computers. Approximately 55 million acres are currently valued manually.

The division has used county computers (in the 38 automated counties) and manual systems to generate real and personal
property assessment lists. These lists (which become individual notices) are provided to taxpayers to notify each of changes in ownership, classification, valuation, or the addition or subtraction of real and personal property. Due to recent legislative changes (Senate Bill 19 of the June 1986 Special Session), the responsibility of generating assessment notices has been assumed by the division. The intent of the change was to provide for standardized notices to eliminate confusion among taxpayers.

The Computer Assisted Appraisal System (CAAS) is the foundation for real property appraisals. The system is designed to assist all counties in valuing all real property in the state. Approximately 522,000 improvements were valued by the system during the recent reappraisal cycle. The following chart details the flow of information through the system.
Due to recent statewide budget cuts for fiscal year 1986-87, the division elected to eliminate funds for the 38 automated counties. These funds were utilized to support software (computer programs) and maintain hardware (computer equipment). The division intends to request funding from the 1987 Legislature to develop an on-line data capture system. The system would allow adding and updating of property data directly to the state's mainframe through terminals located in various counties. This would eliminate the need for maintaining separate systems within the automated counties.

Because of the uncertainty of funding for this system, our audit work focused on: 1) the current procedures the division uses, 2) the use of the CAAS, and 3) the reliance on county
computers. We identified a number of concerns related to division and county data processing agreements as well as general computer controls and controls over county computer programs. County officials noted a lack of funds and a general unawareness of data processing controls as reasons for not implementing reasonable controls. We also identified weaknesses in the division's use of the Marshall Valuation System. The Marshall Valuation Service computer is used by the division to value about half of Montana's commercial property. The following sections discuss issues related to these areas.

APPRAISAL ERRORS NOT DETECTED BY THE CAAS SYSTEM

During our review of division data processing operations we found that CAAS system application controls were not adequate in the areas of reconciling output to input by county staff, and reasonableness checks over output data. County staff noted that CAAS appraisal output reports contained extensive errors. Our work indicated that these errors were primarily coding and formatting errors at the county level.

Reconciliation of output to input is not routinely done at the county level. An example of reconciliation would be routine comparisons of residential property data manually recorded by appraisers with computer generated reports. We asked appraisal staff in four counties if they reconciled CAAS output reports with the input documents. In all four counties, staff noted that reconciliation was not routinely done due to a lack of time and resources. When a reconciliation is not performed there is potential of not correctly processing all the data.

Adequate limit and reasonableness checks on physical depreciation are not incorporated into the CAAS system. These types of checks are designed to ensure the validity of data output by the system. In several instances we found that depreciation was being applied to residential improvements of similar age and grade at significantly different rates. For example, we noted a house built in 1924 with only 8 percent depreciation. Our review
of other appraisals showed that houses built in the 1920s typically have 40 to 80 percent depreciation. This house was not flagged by the CAAS system for further review. Our observation of the residence indicated that the depreciation percentage should have been larger.

Our review of CAAS printouts also revealed some questionable appraisal values and appraisal adjustment factors. We discussed these values with county appraisers and they agreed that some of the values were in error. For example, in one county a residential lot was valued at $1,150 even though the lot sold for $15,000 in a 1983 sale. A division official agreed it was an error and the correct value was $11,500. Without adequate CAAS edits, appraisal errors can go undetected and result in more tax appeals.

Division personnel indicated that limit and reasonableness checks (edits) were included in the CAAS system in the past, but have been removed due to the additional time and resources required to follow up. There are management reports available, on a request basis, that will provide the needed information, but these are not used on a regular basis.

The division should improve CAAS application controls with routine limit and reasonableness checks on physical depreciation and develop procedures to ensure county staff are performing input/output reconciliations.

RECOMMENDATION #12
WE RECOMMEND THE DIVISION:
A. IMPLEMENT ROUTINE LIMIT AND REASONABLENESS CHECKS ON PHYSICAL DEPRECIATION.
B. IMPLEMENT PROCEDURES TO ENSURE COUNTY STAFF CONDUCT INPUT/OUTPUT RECONCILIATIONS.

DIVISION MICROCOMPUTER CONTROLS
During our audit work we identified several concerns related to general computer controls and controls over computer programs
(application controls) of the division's microcomputer data processing functions. We believe reasonable controls over microcomputers are warranted even though microcomputer data processing may not be as extensive as other mainframe data processing. Our review included microcomputer operations related to intercounty, industrial, and timber appraisal and assessment systems. We also noted the reason for poor controls over microcomputers is a lack of accountability because there have been no staff specifically responsible for all data processing at the division.

**General Controls**

Audit work indicated weaknesses in microcomputer data processing general controls in six areas:

- no division microcomputer policies and procedures;
- lack of an established plan for recovery of data and continuation of operations in case of disaster;
- inadequate backup and off premises storage of data and computer programs;
- poor security over access to data files;
- a lack of systems development controls such as review, testing, and approval of new computer programs as well as modifications of existing computer programs; and
- lack of general documentation of microcomputer systems.

Absence of these controls increases potential for:

- increased recovery time and delay of data critical to the division;
- loss of data and inability to continue operations in the event of disaster;
- unauthorized manipulation of data;
- computer programs where effective controls are not in place or are inadequate; and
- improper use of programs.
General controls ensure proper protection of microcomputer hardware, software, and data. Controls provide system integrity, continued data processing operations, and the proper utilization of data processing resources.

**Application Controls**

Division microcomputer processing controls were found to be weak. We found cases where specific controls, such as reasonableness checks, were not used by the division. Without adequate processing controls, there is little assurance all transactions are processed as intended and that authorized transactions are not omitted from processing.

**Summary**

We recommend the division undertake a review of the general and application controls over microcomputer data processing at the division. The division should then implement microcomputer policies and procedures and develop reasonable controls over microcomputer data processing. These controls could ensure more efficient microcomputer processing operations. The recent division reorganization, which created a Management Services Bureau to oversee all division data processing, should improve accountability by establishing staff specifically responsible for division data processing.

**RECOMMENDATION #13**

**WE RECOMMEND THE DIVISION:**

A. ESTABLISH MICROCOMPUTER POLICIES AND PROCEDURES.

B. IMPLEMENT REASONABLE CONTROLS OVER MICROCOMPUTER DATA PROCESSING.
DATA PROCESSING AGREEMENTS

Data processing agreements between the division and the counties were found to be inconsistent and incomplete. For example, there was no mention of each party's responsibilities. In addition, we noted cases where there was no signed data processing agreement between the division and the county. We also found language in the agreements was not consistent from one county to another.

Because of the vagueness of the agreements, ownership (of the computer equipment and computer programs) is not known in most cases. Of the seven automated counties visited during the audit, we found that all believed they retained total ownership of all computer equipment and computer programs. To determine ownership and responsibility, we believe the division should specify exactly what the division's funding allocation for future county data processing entails. If funding is strictly for the use of county resources, this should be specified. If the funding is for computer equipment to be purchased, for updates to computer programs, or for some other type of arrangement, the agreement should detail this.

A division official has stated that the division intends to standardize agreements with counties in the near future if county computers continue to be used for property valuation.

RECOMMENDATION #14

WE RECOMMEND THE DIVISION:
A. STANDARDIZE COUNTY DATA PROCESSING AGREEMENTS.
B. SPECIFY WHAT THE DIVISION'S FUNDING ALLOCATION FOR COUNTY DATA PROCESSING ENTAILS.

METHOD USED TO FUND COUNTY DATA PROCESSING

Division funding of the thirty-eight automated counties ranges from zero to $32,000 for fiscal year 1985-86. Through subsequent
review of division files and interviews with division personnel, we found no method or formula was used to derive the amount of funding allocated to each county.

No documentation specifying why each county received the amount it did could be found within division files. A division official noted that the division did not enter into binding agreements with the counties due to the uncertainty of funding available to reimburse the counties. Agreements allocating amounts contingent on legislative funding have not been used.

Of the seven automated counties we visited during the audit, all believed data processing funding provided by the division was inadequate. Although only two counties had comparative figures available, all counties noted data processing costs exceeded what was reimbursed by the division. The following chart compares estimated costs for the processing of property assessment information with the division's reimbursement for two counties with comparable data. As this chart shows, actual costs of county computer operations related to property assessment greatly exceeds state reimbursements.
COMPARISON OF COUNTY COSTS FOR PROCESSING PROPERTY DATA WITH DIVISION REIMBURSEMENTS FOR SELECTED COUNTIES

**COUNTY A**

<table>
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<th>Year</th>
<th>Estimated Costs (includes maintenance, computer equipment, and resources)</th>
<th>Division Funds Allocated for County Data Processing</th>
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</thead>
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<td>$19,634</td>
<td>$1,500</td>
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<tr>
<td>1985</td>
<td>16,981</td>
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</table>

**COUNTY B**

<table>
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<th>Estimated Costs (includes maintenance, computer equipment, and resources)</th>
<th>Division Funds Allocated for County Data Processing</th>
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</thead>
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<td>1982</td>
<td>$3,017</td>
<td>$ -0-</td>
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<tr>
<td>1983</td>
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<td>1984</td>
<td>2,255</td>
<td>-0-</td>
</tr>
</tbody>
</table>

Note: Costs in County A include computer equipment purchases, maintenance, and resources. County B data processing costs include only maintenance and resource costs. Data was available for selected years only.

Source: Compiled by the Office of the Legislative Auditor

Illustration 32

To ensure some equity in funding for data processing activities as well as to identify counties receiving low or high payments, a method of reimbursing counties should be developed. This method could consider actual assessor and appraiser offices' use of county data processing systems and related costs. Each county could submit their forecasted data processing costs based on historical data to the division to be included in an allocation formula developed by the division.
RECOMMENDATION #15
WE RECOMMEND THE DIVISION DEVELOP A METHOD FOR FUNDING USE OF COUNTY COMPUTER SYSTEMS BASED ON ACTUAL COSTS.

COUNTY COMPUTERS

During the audit we identified a number of concerns related to county computer operations. However, our work indicated the division does not have direct control over county computer operations. Therefore, implementing the recommendations in the following sections may be difficult for the division. Division officials have indicated that without any funding to reimburse counties for using county computers the division is left with only suggesting controls to the county and accepting whatever county officials decide.

County Data Processing Policies and Procedures

Currently the Property Assessment Division has several staff assigned to answer questions and solve data processing problems for county personnel. During our audit work we noted that county data processing procedures could be improved if specific policies were implemented.

We found a lack of division policies related to: 1) modification of property assessment computer programs; and 2) approval of county data processing equipment purchases. In addition, we noted a case where the division provided little or no support to counties with property assessment data processing problems. One assessor requested help from the division to modify a property assessment computer program. Division staff never responded to the county assessor's request. As a result, additional time was required to manually process personal property values which are still not automated in the county.

Without data processing policies and procedures, there is a greater possibility county data processing staff will make changes
to computer programs and purchase computer equipment that may be unnecessary or inappropriate. Our questionnaire results indicated that 16 counties have made extensive modifications (6 or more) to property assessment computer programs during the past two years. Without adequate control over changes to computer programs, state and county property valuation computer reports may not be consistent. In addition, division personnel are not aware of how counties expend data processing funds allocated by the division. These funds may be used for computer equipment purchases not authorized by the division. In effect, the division does little or no monitoring of county data processing activities.

**RECOMMENDATION #16**

WE RECOMMEND THE DIVISION DEVELOP SPECIFIC POLICIES TO ADDRESS:

A. OVERALL DATA PROCESSING ACTIVITIES IN THE COUNTIES.

B. MODIFICATION OF PROPERTY ASSESSMENT COMPUTER PROGRAMS.

C. APPROVAL OF COUNTY DATA PROCESSING EQUIPMENT PURCHASES.

County Data Processing Controls

During our county visits we examined controls over county data processing facilities and county property assessment computer programs. The next two sections discuss our findings.

**General Controls**

General controls are those controls which apply to the overall data processing environment. These controls include:

1. Organization and Operation Controls - those controls which help ensure proper segregation of duties so that no one person has the ability to commit and conceal material errors or irregularities.
2. Hardware and System Software Controls - those controls which reduce the possibility of system failure due to hardware or software malfunctions.

3. Physical Security - those controls which reduce the risk of accidental or intentional destruction of data and program files or equipment.

4. Access Controls - those controls which prevent unauthorized access to system documentation, data and program files, and the computer equipment.

5. Data and Procedural Controls - those controls which provide a framework for controlling daily operations and establishing safeguards against processing errors.

Our visits to seven automated counties indicated weaknesses in several data processing general controls. Some of the general control weaknesses noted included:

- lack of access controls over data files;
- lack of independent review of data processing in the county;
- lack of systems development controls such as review, testing, and approval of new computer programs as well as approval of modifications of existing computer programs;
- no written data processing policies and procedures; and
- no established plan for recovery of data and continuation of operations in case of a disaster.

Absence of these controls allow the potential for:

- unauthorized manipulation of data;
- use of computer programs without effective controls (creating potential for errors, etc.); and
- loss of data and operations in the case of a disaster.

Specifically, one county had lost data due to power surges as well as human error on several occasions. County personnel had to reconstruct data from backup sources. We also noted the division has little control over changes to property appraisal and assessment computer programs used by the counties. Our
questionnaire results indicated that 67 percent of the respondents had made more than six changes to assessment computer programs. During our county visits we did not find evidence of division control or approval of these changes.

Application Controls

Application controls relate to specific program tasks and activities. These controls include:

1. Input Controls - those controls which verify that data is accurately and completely transferred from the source to machine readable format and provides assurance that transactions are authorized for processing.

2. Processing Controls - those controls which provide reasonable assurance that all transactions are processed as authorized, that no authorized transactions are omitted, and that no unauthorized transactions are added.

3. Output Controls - those controls which ensure the accuracy, completeness, and security of data after processing.

4. Application Documentation Controls - those controls which ensure that effective application controls are included in all new systems and preserve the integrity of application controls after the system has been implemented.

Our county visits also revealed inadequate application controls over some county computer software applications. Some of the application control weaknesses found were:

- lack of input controls such as verifying codes, and conversion of data from documents to computer language;

- lack of processing controls such as use of control totals, and limit and reasonableness checks; and

- lack of documentation of the application (computer programs).

Absence of these controls increases the potential for: 1) loss, addition, or alteration of data; 2) erroneous data being entered and processed on the system; and 3) the disruption of data
processing operations in the case of unexpected change in personnel. In two of the counties we visited there have been unexpected changes in data processing directors and the successors have had a difficult time maintaining the existing systems.

Summary

The general and application controls discussed above are suggested guidelines for the adequate control of data processing systems and related operations. Reasonable controls over data processing should be in place to ensure: 1) property data is processed in a complete and accurate manner; and 2) the county computer centers are functioning efficiently and effectively.

RECOMMENDATION #17

WE RECOMMEND THE DIVISION:

A. UNDERTAKE A REVIEW OF THE GENERAL AND APPLICATION CONTROLS OVER THE DATA PROCESSING SYSTEMS AT THE COUNTY LEVEL FOR THE AUTOMATED COUNTIES.

B. IMPLEMENT ADEQUATE CONTROLS, INCLUDINGRELATED POLICIES AND PROCEDURES, OVER COUNTY DATA PROCESSING.

Conclusion

Our work has indicated weaknesses in county computer operations including a lack of county data processing policies and procedures, and inadequate county data processing controls. As stated previously, the division lacks direct control over county computer operations and therefore, will have difficulty implementing the recommendations. The passage of Senate Bill 19 during the June, 1986 Special Session, which required all real property be assessed using a standard statewide notice, emphasizes the need for a centralized computer system. Many county computer
systems may not be equipped to handle the amount of information necessary to generate standard statewide notices. Division officials have sought funding for a centralized computer system which would eliminate the need to implement the county computer recommendations.

THE MARSHALL VALUATION SYSTEM


Residential

The CAAS which, as explained earlier is the foundation for real property appraisals, incorporates Marshall values and cost information within its system to develop values for the 522,000 improvements in the state. Marshall uses replacement costs, construction types, construction quality, types of heating, interior finishes, exterior walls and lighting, plumbing and mechanical components as factors in arriving at these values. Cost indexes and trend multipliers as well as current and local cost multipliers are also used.

Commercial

The Marshall Valuation Service is used to value all Montana commercial property. Six counties actually have on-line access to the Marshall's computer located in Los Angeles, California, which allows "instant" appraisals. Other counties use Marshall cost data to manually value commercial property. Approximately 50 percent of Montana's commercial property is valued by the Marshall Computer System. This amounts to $2.7 billion in 1986 market value.

Our work indicated concerns in two areas related to the Marshall System. A written contract listing the specific services provided by the Marshall Valuation Service and related costs
should be established. Reasonable controls to ensure the Marshall Computer System is processing data properly should be implemented.

The division relies on the Marshall Valuation Service to accurately process property data and has not adequately reviewed Marshall System controls. We found that there have been no formal audits of Marshall's data Valuation Service processing operations. Without adequate assurances that controls over the Marshall System are in place and working as intended, processing errors may occur. The commercial valuation differences as noted in Illustration 23, page 40, indicate that a testing of processing controls may be in order. The difference of 21 percent, $156,950 (automated) versus $199,969 (manual) in computed market values for one example, displays a need to implement and test processing controls. As noted earlier, 50 percent of the state's commercial property is valued by the computer and the other half manually.

Our review also noted that the division does not have a contract with the Marshall Valuation Service. Without a formal contract there is a possibility for liability concerns. Disputes over services provided and fees charged could also occur.

The division should implement processing controls over the Marshall System and establish a formal contract with the Marshall Valuation Service.

RECOMMENDATION #19
WE RECOMMEND THE DIVISION:
A. IMPLEMENT ADEQUATE PROCESSING CONTROLS OVER THE MARSHALL SYSTEM.
B. ESTABLISH A CONTRACT WITH THE MARSHALL VALUATION SERVICE.
January 19, 1987

Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Scott:

Attached is the Department of Revenue response to your performance audit of the Property Assessment Division.

As you well know, property taxation has become a highly visible, greatly debated public policy issue. For that reason legislators, taxpayers and elected officials will be interested in your audit findings. I think this report can provide the basis for improving and strengthening our property tax system.

It was extremely gratifying to see the professional way in which you and your staff conducted the audit. You fairly and comprehensively addressed the issues that affect the Property Assessment Division. You and your staff did a first rate job.

Sincerely,

[Signature]

John D. LaFaver
Director

JDL/dh

Attachment
MONTANA DEPARTMENT OF REVENUE

RESPONSE TO THE

PERFORMANCE AUDIT REPORT
OF THE
PROPERTY ASSESSMENT DIVISION

January 19, 1987
BACKGROUND

Before addressing each specific audit recommendation, there are a number of points that need to be considered throughout our response to the audit report. The following information is provided to convey some perspective on the scope of Montana's Property Assessment function.

During each five-year reappraisal cycle, we contemplate revaluing the following volumes and types of property:

- 51,000,000 acres of agricultural land
- 3,500,000 acres of timber land
- 259,025 residences including mobile homes
- 43,630 commercial properties
- 51,680 farmsteads
- 800 industrial properties

A review of private sector prices required to appraise property indicates that current prices for these services would generate the following costs:

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Number of Properties</th>
<th>Average Appraisal Cost Per Property*</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential/ Mobile Home</td>
<td>259,025</td>
<td>$250</td>
<td>$64,756,250</td>
</tr>
<tr>
<td>Commercial</td>
<td>43,630</td>
<td>$3,000</td>
<td>130,890,000</td>
</tr>
<tr>
<td>Farms</td>
<td>51,680</td>
<td>$3,000</td>
<td>155,040,000</td>
</tr>
<tr>
<td>Industrial</td>
<td>800</td>
<td>$70,000</td>
<td>56,000,000</td>
</tr>
</tbody>
</table>

Total Cost: $406,686,250

*Source: Compiled by a Property Assessment Division survey of fee appraisers.

For comparison, the Property Assessment Division budget is directly attributable to the appraisal of these properties over the last 5 years was $22,207,005.
Over the last six years property tax collections in Montana have totaled $3,151,653,795. Of that amount, $585,021,593 were raised to support school equalization while $80,316,586 were collected for the university system. During the same period $58,453,280 were spent to operate the property assessment process. For every $1.85 spent on property assessment, $100 in revenue is generated.
Excluding agricultural land and timber land, we appraised 540,000 parcels of property. After completion of the additional notification and extended opportunity to appeal required by the special session, fewer than 25,000 requests for our staff to review the appraisals were filed. No review was requested on over 95% of the parcels.

There have been approximately 12,000 appeals filed on those 540,000 properties. That equates to 2.2% of the work product under appeal. Of those properties appealed, the department's determination of value is being upheld in over 85% of the appeal decisions rendered by independent county tax appeal boards. In comparison to other taxing jurisdictions recently involved in reappraisal, Montana's appeal numbers are low.
PROPERTY TAX ASSESSMENT APPEALS
MONTANA COMPARED TO OTHER STATES

DANIELS COUNTY, TEXAS
HOUSTON

APPEALED (60.0%)

NOT APPEALED (40.0%)

SALT LAKE COUNTY, UTAH
SALT LAKE CITY

APPEALED (6.4%)

NOT APPEALED (93.6%)

MONTANA

APPEALED (2.2%)

NOT APPEALED (97.8%)
At the end of the first appraisal cycle in 1978, the State Tax Appeal Board received approximately 1,400 appeals. Assessed values at the end of the cycle were approximately 60% to 70% of 1978 values and the taxpayers received only one notice. By contrast, 2,100 appeals have been filed at the State Tax Appeal Board, as of early January 1987 (less than 1% of the taxable properties in the state).

The legislature, meeting in Special Session III, wanted to assure that taxpayers were aware of their appeal rights. As a result, taxpayers have received multiple assessment notices and appeal deadlines were extended into late 1987. Public meetings were held in every county seat to explain reappraisal and taxpayer appeal rights. Partially as a result of these efforts, we have seen appeals increase modestly.

As with most audit reports, this one contrasts the performance of the Property Assessment Division with the "ideal" situation -- one in which fiscal resources are abundant. While improvement can and is being made, we doubt that significant improvement can be expected in property assessment administration without increasing expenditures or reducing statutory workload.

The Department feels that uniformity and accuracy of appraisals and taxpayer service can be further improved by increased use of the computer assisted appraisal system and other audit recommendations. In fact, many of the recommendations have been implemented. In other areas that require legislative action, we hope the recommendations serve as a blueprint for change.

In an organization responsible for so many different properties, tax rates, and statutes, errors are bound to occur and some errors will, inevitably, go undetected. The focus of the Division management has been to keep the errors to a minimum while expediting a reasonable process to correct the errors as they are discovered and brought to our attention. Following are our responses to each audit recommendation.

**Recommendation #1:**

We recommend the Division increase supervisory and audit review of county offices.

**Agency Response:**

Concur.

The Property Assessment Division has recently been reorganized resulting in the expansion of audit review in county offices. The reorganization has also increased supervisory
review of county offices by requiring the field area appraisal managers to assume management and coordination responsibilities over the assessment office as well as the appraisal office. The Division's previous organizational structure required all 56 county assessors to report directly to the Personal Property Bureau Chief. That organizational structure was eliminated to provide a more timely on-site review of assessment and appraisal practices at the county level. Additionally, an Audit Bureau was created to separate the audit function from the appraisal and assessment functions. Audits are now performed on both appraisal and assessment offices along with audits of commercial personal property taxpayers as required under Montana statute. We have implemented the audit recommendation to increase supervisory and audit review of county offices with the goal of decreasing the appeal rate below 2% in the next appraisal cycle.

**Recommendation #2:**

We recommend the Division:

(a) Reevaluate current communication methods and obtain county level recommendations.

(b) Improve procedures to ensure county requests for information are answered in a timely manner.

**Agency Response:**

Concur.

The Property Assessment Division has significantly improved the communication process to field staff during the past five year period of reappraisal. Numerous administrative rules have been implemented, appraisal plans adopted, standard assessment and appraisal procedures adopted and transmitted to all staff. A standard policy development process has been implemented. An advisory group of field staff has been created and meets quarterly with administrative staff of the Division to discuss and recommend changes in policy, procedure, staffing, budget and forms. The division has reorganized to ensure that county requests are handled in a more timely manner by providing area manager control and coordination of both assessment and appraisal field offices. This will improve the Division's responsiveness to assessors' inquiries and communication.

The Division will survey assessment and appraisal staff prior to the next assessment school to identify additional communication needs and to obtain additional county level recommendations for review by the field staff workgroup.
Recommendation #3:

We recommend legislation be enacted to place the assessment function under direct control of the Department of Revenue.

Agency Response:

Concur.

This one action will do more to lower administrative cost and improve supervisory control than any other single audit recommendation.

Recommendation #4:

We recommend that the Division:

(a) Establish training goals and objectives for assessor school training.

(b) Use the assessor school as a forum to document differences in county practices and clarify policies and procedures.

Agency Response:

Concur.

The Property Assessment Division feels we have already complied with the quality of training for county assessors as evidenced by the improvement of test scores from 1985 to 1986. The course was provided to appraisal staff as well as assessment staff and approximately 90% had a passing score. The Division will establish written training goals and objectives for the next assessor school training in the fall of 1987. The Division will also document any differences in assessment practices that surface at assessment training school. However, we tend to rely heavily on our audit process and area manager supervision to resolve most differences prior to the schools. While we have no problem with using the school as a forum for recommending changes to policies and procedures, our formal process is to discuss proposed changes in policies and procedures with our field staff advisory workgroup prior to implementing written changes to policies and procedures.
Recommendation #5:
We recommend the Division implement a formal monitoring program as part of its audit function.

Agency Response:
Concur.

The Property Assessment Division has already complied with this recommendation. Written audit plans for the Audit Bureau include sampling of taxpayer reporting forms and on-site review as part of our standard audit process.

Recommendation #6:
We recommend the Division continue to request funding for a statewide mapping project or reclassify vacant positions.

Agency Response:
Concur.

We will attempt to comply with the recommendation in FY'88 within the constraints of our appropriation.

Recommendation #7:
We recommend the Division develop a written policy for county appraisal staff use of comparables.

Agency Response:
Concur.

The requirement to present comparable appraisals at county tax appeal hearings is included in individual performance appraisals. Though we feel we have already complied with the intent of the recommendation, the Property Assessment Division will issue a formal policy prior to the commencement of the appeal process for tax year 1987.

Recommendation #8:
We recommend the Division:

(a) Attend county tax appeal board hearings, as feasible, to identify major appraisal errors and inconsistencies in county valuation practices.
(b) Implement appropriate policies and procedures that address errors and inconsistencies identified at county tax appeal board hearings.

Agency Response:

Concur.

When feasible, Section Supervisors, the Appraisal/Assessment Bureau Chief, and audit staff will attend county tax appeal board hearings for 1987 tax appeals. If, as a result of attending those hearings, it becomes necessary to adopt policies and procedures to address errors and inconsistencies identified at county tax appeal board hearings, the Division will implement appropriate policies and procedures.

Recommendation #9:

We recommend the Division:

(a) Routinely sample sales to determine if verification screening procedures are followed uniformly by county appraisal staff.

(b) Develop written procedures for validating sales data from Realty Transfer Certificates.

(c) Implement procedures defining county staff use of Realty Transfer Certificates.

Agency Response:

Concur.

The creation of an Audit Bureau as a result of reorganization addresses a portion of the audit recommendation. One of the tasks of the Audit Bureau will be to sample sales to confirm that verification has taken place. Additionally, verification checks will become a part of each area manager's performance appraisal.

General written procedures for validation of sales data from Realty Transfer Certificates have been adopted in policy since 1983. More specific written procedures that further identify the validator's responsibility will be adopted by the Division.

While verbal procedures and statutory language regarding county staff use of Realty Transfer Certificates are in place, the Division will provide written procedures to field staff prior to the start of 1987 tax appeals.
Recommendation #10:

We recommend the Division implement a management system to collect and analyze property information such as property tax appeals and property tax exemptions.

Agency Response:

Concur.

The Division has already compiled a listing of property tax appeals for the county tax appeal board and the State Tax Appeal Board. While the Division concurs that this recommendation is an appropriate one, the volume of appeals and exemptions processed by the Division require this system be automated. Funds do not currently exist to allow for this automation.

In Chapter IV - Available Resources To Complete Property Reappraisal. The legislative auditor report stopped short of making a recommendation for funding. We believe it is appropriate to point out that in 1978 the Property Assessment Division employed approximately 760 FTE while the current staffing level of the Property Assessment Division is below 400 FTE. Over that same period of time, the number of properties subject to appraisal has increased by nearly 100,000 through new construction and subdivisions. While funding for the Division is substantially lower in FY87, it is our opinion that if the Division is funded at the level indicated in the Governor's budget, and no additional responsibilities are added, we will be able to complete the new reappraisal cycle by 1991. If additional reductions are made in the Property Assessment Division budget below the level recommended by the Governor or if additional statutory responsibilities are added and not adequately funded, the Division will be unable to meet the legislative requirements of reappraisal by 1991.

Recommendation #11:

We recommend the Division:

(a) Maintain current lists of property exemptions.

(b) Implement an annual review process which will provide an update of all granted exemptions.
Agency Response:

Concur with II a. and Conditionally Concur with II b.

The Division already maintains a current file of property exemptions at the state level. Additionally, on each county audit we review exempt property and require all owners of properties lacking adequate documentation to support the exemption, to reapply. While we think the recommendation is appropriate, staffing limitations do not allow us the ability to make significant improvements in the review of exempt property. Because of the way the exemption statutes are structured, the "use" of exempt property seldom changes except when the ownership changes. We currently require a review of exemption status when ownership changes.

Recommendation #12:

We recommend the Division:

(a) Implement routine limit and reasonableness checks on physical depreciation.

(b) Implement procedures to ensure county staff conduct input/output reconciliations.

Agency Response:

Concur.

Although the Division routinely reviews depreciation awarded individual structures through management reports, we do not have a satisfactory level of depreciation reasonableness checks in our system edits. The Division will work with field appraisal staff to establish depreciation reasonableness checks for the computer assisted appraisal system and will install those changes prior to January 1, 1988.

Reorganization of the Property Assessment Division has provided for increased supervision of county field staff. While the requirement to review and reconcile input and output data is clearly stated in our cost computation manuals and individual job descriptions, we will incorporate these requirements in individual work plans and performance appraisals in 1987.
Recommendation #13:

We recommend that the Division:

(a) Establish microcomputer policies and procedures.

(b) Implement reasonable controls over microcomputer data processing.

Agency Response:

Concur.

The division will implement the microcomputer policies and procedures which have been developed by the Department's Data Processing Division. These policies and procedures address all concerns and recommendations identified in the audit.

Recommendation #14:

We recommend the Division:

(a) Standardize county data processing agreements.

(b) Specify what the Division's funding allocation for county data processing entails.

Agency Response:

Concur.

In the event that funding is provided to support county computer operations in the next biennium the division will develop uniform agreements with all counties. Additionally, these agreements will specify the intended use of the funding provided, if any.

Recommendation #15:

We recommend the Division develop a method for funding use of county computer systems based on actual cost.

Agency Response:

Conditionally Concur.

The fact that standardization of computer hardware, software and operating procedures does not exist makes this recommendation virtually impossible to implement based on "actual cost".
Each county has its own method for allocating its computer costs (i.e., personal, equipment, processing, data storage, software, etc.) to the various entities it supports. As a result, there is no feasible way to accurately determine actual costs without requiring a uniform cost allocation procedure for all counties. The difference in system configurations across the state, the varying size of different counties and the multitude of contrasting uses of computers render this alternative impractical.

In the event that funding is provided in the next biennium the division will develop a uniform method based on specific criteria for allocating county computer support funds.

Recommendation #16:

We recommend the Division develop specific policies to address:

(a) Overall data processing activities in the counties.

(b) Modification of property assessment computer programs.

(c) Approval of county data processing equipment purchases.

Recommendation #17:

We recommend the Division:

(a) Undertake a review of the general and application controls over data processing systems at the county level for automated counties.

(b) Implement adequate controls, including related policies and procedures, over county data processing.

Agency Response to Recommendations #16 and #17:

Concur with all findings.

Conditionally concur with recommendations.

These recommendations are appropriate and necessary to effectively manage information systems critical to property assessment activities. However, implementation of these recommendations is not feasible given current funding and statutory authority of the Department.

The Department has no authority to require or enforce standardized policies and procedures for data processing standards, equipment acquisitions, system modifications,
application controls and review, or any other data processing related activity under the control of any county. The problems with county-operated systems identified in the audit are well known to the division and have caused substantial problems over the years. The dynamic nature of changing tax laws clearly dictates the essential need for centralized processing of property tax information. The present operating environment is unmanageable, uncontrollable, redundant, nonresponsive to change, and grossly inefficient in its use of computer resources and staff.

The only practical way to implement the intent of these recommendations is to centralize the information systems which support property assessment activities. The Department recognizes the necessity to centralize and has requested appropriation authority to develop and implement a centralized statewide information system which addresses the audit finding and implements the recommendations. The legislature will ultimately decide whether or not these recommendations will be implemented. Without funding for a centralized appraisal system or specific statutory authority for the administration of county computer operations relating to property assessment these recommendations cannot be realistically achieved.

**Recommendation #18:**

We recommend the Division:

(a) Implement adequate processing controls over the Marshall System.

(b) Establish a contract with the Marshall Valuation Service.

**Agency Response:**

Conditionally Concur.

The Marshall and Swift Publication Company developed and maintains the Marshall Valuation Service Cost Appraisal Manual. The manual is viewed by the entire valuation and appraisal profession as one of the two or three worldwide standards. Our participation with their system is negligible in comparison to the use and scrutiny that system is given by other states, companies, corporations and countries.

As a matter of consistency, the most cost effective approach would be to develop a commercial pricing system that would be added to the present residential CAAS system. Absent funding to accomplish this, we will explore the possibility of
implementing processing controls over this private corporation. Should we determine our best option for this appraisal cycle is to continue our present arrangement with Marshall Valuation Service, we will establish a written contract for services.
SURVEY QUESTIONNAIRE RESULTS

APPENDIX A
SURVEY QUESTIONNAIRE RESULTS - ASSESSORS

1. How would you rate the following areas of the personal property assessment training session (Assessor school)?

| Clarification of Policies and Procedures | Above | Average | Below | No | No Ratio
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarification of Policies and Procedures</td>
<td>1.9%</td>
<td>13.2%</td>
<td>62.3%</td>
<td>13.2%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Topics</td>
<td>1.9%</td>
<td>15.1%</td>
<td>49.1%</td>
<td>26.4%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Quality of Instructor(s) -</td>
<td>15.1%</td>
<td>64.2%</td>
<td>13.2%</td>
<td>3.8%</td>
<td>-</td>
</tr>
<tr>
<td>Course Content</td>
<td>3.8%</td>
<td>9.4%</td>
<td>58.5%</td>
<td>11.3%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Visual Aids -</td>
<td>11.3%</td>
<td>58.5%</td>
<td>17.0%</td>
<td>7.5%</td>
<td>-</td>
</tr>
<tr>
<td>Class Size -</td>
<td>15.1%</td>
<td>54.7%</td>
<td>15.1%</td>
<td>11.3%</td>
<td>-</td>
</tr>
<tr>
<td>Facilities</td>
<td>3.8%</td>
<td>24.5%</td>
<td>58.5%</td>
<td>9.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Availability of Courses -</td>
<td>9.4%</td>
<td>45.3%</td>
<td>17.0%</td>
<td>11.3%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Overall</td>
<td>1.9%</td>
<td>13.2%</td>
<td>60.4%</td>
<td>9.4%</td>
<td>13.2%</td>
</tr>
</tbody>
</table>

2. Do you have any concerns regarding Montana's present tax appeal process?

Yes - 32.1%  No - 64.2%  No Response - 3.8%

3. How often do you review current personal property tax exemptions to ensure their status has not changed?

Once a year | 71.7% | Never | 5.7%
Once every 2 years | 5.7% | Don't Know | 9.4%
Once every 3 years | 1.9% | No Response | 3.8%
Longer than every 3 years | 1.9%

4. Who do you believe should be responsible for reviewing the status of property exemptions?

County | 32.1% | Both | 39.6%
Property Assessment Division | 24.5% | Other | 3.8%

5. Do you have any concern with duplication of property data between your county and the state?

Yes 41.5%  No 41.5%  No Response 3.8%  Not Applicable 13.2%

6. Do you recall any specific instances in which required or requested information from Property Assessment Division concerning valuations has not been readily available?

Yes 50.9%  No 43.4%  No Response 5.7%
7. Do you have any specific concerns regarding communication with the Property Assessment Division?

Yes 67.9%  
No 22.6%  
No Response 9.4%

8. How would you rate the following functions as they relate to your office?

<table>
<thead>
<tr>
<th>Clarity of Division Policies/Procedures</th>
<th>Exc</th>
<th>Above</th>
<th>Average</th>
<th>Below</th>
<th>Poor</th>
<th>N/A</th>
<th>No Response</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.9%</td>
<td>7.5%</td>
<td>71.7%</td>
<td>11.3%</td>
<td>7.5%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

| Communication from the division        | -   | 9.4%  | 47.2%   | 22.6% | 13.2%| 3.8%| 1.9%        | 1.9%    |

| Your Available Resources               | 1.9%| 9.4%  | 41.5%   | 20.8% | 24.5%| 1.9%| -           | -       |

| Overall Division Management Control   | 1.9%| 5.7%  | 54.7%   | 15.1% | 13.2%| -   | 5.7%        | 3.8%    |

| County Coordination Between Assessor/ Appraiser Offices | 11.3%| 34.0% | 34.0%   | 11.3% | 9.4% | -   | -           | -       |

| The Tax Appeal Process                 | -   | 11.3% | 69.8%   | 15.1% | -    | -   | 3.8%        |

| The Tax Exemption Process              | -   | 3.8%  | 66.0%   | 17.0% | 7.5% | -   | 1.9%        | 3.8%    |

9. If you were employed by the Property Assessment Division before 1982, how would you compare current division management practices with those before 1982?

Better 24.5%  
Worse 30.2%  
Not Applicable 3.8%  
Same 26.4%  
No Opinion 3.8%  
No Response 11.3%

10. Of the following areas, which do you believe would better improve the property valuation process in Montana?

<table>
<thead>
<tr>
<th>Percent Indicating Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased communication between county and state</td>
</tr>
<tr>
<td>Consolidation of county appraiser &amp; assessor functions</td>
</tr>
<tr>
<td>Fewer forms</td>
</tr>
<tr>
<td>Centralization of state and county data processing</td>
</tr>
<tr>
<td>Increased staff at county level</td>
</tr>
<tr>
<td>Increased staff at state level</td>
</tr>
</tbody>
</table>
1. Generally, how long has it taken for RDCF-3 and item update form data to be returned by the state?

- 1 - 10 days: 9.8%
- 11 - 20 days: 56.9%
- 21 - 31 days: 21.6%
- No response: 2.0%

2. Do you believe that RDCF-3 and item update data are not returned to you in a timely manner?

- Yes: 41.2%
- No: 56.9%
- No Response: 2.0%

3. Do you have any concerns regarding Montana's present tax appeal process?

- Yes: 23.5%
- No: 74.5%
- No Response: 2.0%

4. How often do you review current real property tax exemptions to ensure their status has not changed?

- Once a year: 62.7%
- Once every 2 years: 11.8%
- Once every 3 years: 3.9%
- Longer than every 3 years: 11.8%
- Don't Know: 5.9%
- No Response: 2.0%

5. Who do you believe should be responsible for reviewing the status of property exemptions?

- County: 19.6%
- Property Assessment Division: 39.2%
- Both: 41.2%

6. Do you have any concern with duplication of property data between your county and the state?

- Yes: 29.4%
- No: 70.6%

7. Do you recall any specific instances in which required or requested information from Property Assessment Division concerning valuations has not been readily available?

- Yes: 17.6%
- No: 80.4%
- No Response: 2.0%

8. Do you have any specific concerns regarding communication with the Property Assessment Division?

- Yes: 27.5%
- No: 70.6%
- No Response: 2.0%
9. How would you rate the following valuation functions?

<table>
<thead>
<tr>
<th>Function</th>
<th>Excellent (%)</th>
<th>Above Average (%)</th>
<th>Average (%)</th>
<th>Below Average (%)</th>
<th>Poor (%)</th>
<th>N/A (%)</th>
<th>No Response (%)</th>
<th>No Opinion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timeliness/Accuracy of Keypunching</td>
<td>5.9</td>
<td>21.6</td>
<td>51.0</td>
<td>15.7</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>3.9</td>
</tr>
<tr>
<td>Clarity of Division Policies/Procedures</td>
<td>5.9</td>
<td>17.6</td>
<td>62.7</td>
<td>9.8</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
</tr>
<tr>
<td>Communication with the division</td>
<td>3.9</td>
<td>23.5</td>
<td>51.0</td>
<td>9.8</td>
<td>11.8</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Timeliness of Performance Evaluations</td>
<td>5.9</td>
<td>19.6</td>
<td>58.8</td>
<td>7.8</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Your Available Resources</td>
<td>-</td>
<td>11.8</td>
<td>49.0</td>
<td>19.6</td>
<td>17.6</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Overall Division Management</td>
<td>5.9</td>
<td>31.4</td>
<td>43.1</td>
<td>9.8</td>
<td>2.0</td>
<td>-</td>
<td>2.0</td>
<td>5.9</td>
</tr>
<tr>
<td>County Coordination Between Assessor/Appraisal Offices</td>
<td>15.7</td>
<td>27.5</td>
<td>37.3</td>
<td>13.7</td>
<td>3.9</td>
<td>-</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>The Tax Appeal Process</td>
<td>2.0</td>
<td>25.5</td>
<td>60.8</td>
<td>3.9</td>
<td>-</td>
<td>-</td>
<td>2.0</td>
<td>5.9</td>
</tr>
<tr>
<td>The Exemption Process</td>
<td>-</td>
<td>13.7</td>
<td>64.7</td>
<td>9.8</td>
<td>7.8</td>
<td>-</td>
<td>-</td>
<td>3.9</td>
</tr>
</tbody>
</table>

10. If you were employed by the Property Assessment Division before 1982, how would you compare current division management practices with those before 1982?

    Better 39.2%   Worse 7.8%   Not Applicable 29.4%
    Same 13.7%     No Opinion 5.9%   No Response 3.9%

11. Of the following areas, which do you believe would better improve the property valuation process in Montana?

<table>
<thead>
<tr>
<th>Area</th>
<th>Percent Indicating Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased communication between county and state</td>
<td>51%</td>
</tr>
<tr>
<td>Consolidation of county appraiser &amp; assessor functions</td>
<td>51%</td>
</tr>
<tr>
<td>Fewer forms</td>
<td>29.4%</td>
</tr>
<tr>
<td>Centralization of state and county data processing</td>
<td>84.3%</td>
</tr>
<tr>
<td>Increased staff at county level</td>
<td>43.1%</td>
</tr>
<tr>
<td>Increased staff at state level</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
PROPERTY CLASSIFICATIONS

APPENDIX B
<table>
<thead>
<tr>
<th>Property Class</th>
<th>General Description</th>
<th>Taxable %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Annual Net Proceeds of Mines and Mining Claims Except Coal and Metal Mines</td>
<td>100% of Annual Net</td>
</tr>
<tr>
<td>2</td>
<td>Annual Gross Proceeds of Metal Mines</td>
<td>3% of Annual Gross Proceeds</td>
</tr>
<tr>
<td></td>
<td>Annual Gross Proceeds of Underground Coal Mines</td>
<td>33 1/3% of Annual Gross Proceeds</td>
</tr>
<tr>
<td></td>
<td>Annual Gross Proceeds of Strip Mines</td>
<td>45% of Annual Gross Proceeds</td>
</tr>
<tr>
<td>3</td>
<td>Agricultural Land</td>
<td>30% of its Productive Capacity</td>
</tr>
<tr>
<td>4</td>
<td>Land and Improvements</td>
<td>3.86%</td>
</tr>
<tr>
<td>5</td>
<td>New Industrial Property</td>
<td>3%</td>
</tr>
<tr>
<td>6</td>
<td>Livestock</td>
<td>4%</td>
</tr>
<tr>
<td>7</td>
<td>Telecommunications Property</td>
<td>8%</td>
</tr>
<tr>
<td>8</td>
<td>Agricultural Personal Property</td>
<td>11%</td>
</tr>
<tr>
<td>9</td>
<td>Business Personal Property</td>
<td>13%</td>
</tr>
<tr>
<td>10</td>
<td>Radio and TV Equipment</td>
<td>16%</td>
</tr>
<tr>
<td>11</td>
<td>Centrally Assessed Property</td>
<td>12%</td>
</tr>
<tr>
<td>12</td>
<td>Mobile Homes</td>
<td>3.86%</td>
</tr>
<tr>
<td>13</td>
<td>Timberland</td>
<td>3.84%</td>
</tr>
<tr>
<td>14</td>
<td>Agricultural Land Improvements</td>
<td>3.088%</td>
</tr>
<tr>
<td>15</td>
<td>Railroad Property</td>
<td>12%</td>
</tr>
<tr>
<td>16</td>
<td>Watercraft, Tack Equipment</td>
<td>11%</td>
</tr>
<tr>
<td>17</td>
<td>Airlines</td>
<td>12%</td>
</tr>
<tr>
<td>18</td>
<td>Nonproductive Mining Land</td>
<td>30% (Agricultural Land Tax Rate)</td>
</tr>
<tr>
<td>19</td>
<td>Real Property Less Than 20 Acres That is Rendered Nonproductive by Land Use Laws</td>
<td>2%</td>
</tr>
</tbody>
</table>
ALLOWABLE PROPERTY TAX EXEMPTIONS

APPENDIX C
ALLOWABLE PROPERTY TAX EXEMPTIONS

1. the property of federal, state, county, city, and town governments, and school districts;
2. nonprofit irrigation districts;
3. municipal corporations;
4. public libraries;
5. religious buildings and furnishings;
6. agricultural and horticultural society property;
7. cemeteries and corresponding improvements;
8. property not maintained and operated for private or corporate profit;
9. institutions of purely public charity;
10. evidence of debt secured by mortgages of record upon real and personal property;
11. public art galleries and observatories not used for profit;
12. all household goods and furniture;
13. truck canopy covers or toppers under 300 pounds;
14. bicycles used for owner transportation;
15. automobiles and trucks less than 3/4 ton;
16. motorcycles and quadricycles;
17. property owned by cooperative associations of nonprofit organizations to furnish potable water to its members or customers;
18. the right to enter upon land whose surface title is held by another for mineral exploration;
19. property owned by corporations or associations providing care for the developmentally disabled;
20. farm buildings with a market value of less than $500 and farm machinery less than $100;
21. facilities providing care for the retired or aged, or chronically ill in a nonprofit manner;
22. portions of the appraised value of a capital investment made after January 1, 1979 in a recognized nonfossil form of energy generation;

23. freeport merchandise and business inventories;

24. moneys and credits;

25. state water conservation projects;

26. sprinkler irrigation systems;

27. unprocessed perishable fruits and vegetables in farm storage;

28. nonperishable agricultural products (except livestock) held in possession of producer for less than seven months;

29. livestock less than nine months;

30. swine less than three months;

31. beet implements;

32. one-half of contract sales price of coal sold by a producer who extracts less than 50,000 tons/year;

33. metal mines producing less than 20,000 tons of ore/year;

34. community service buildings and one acre of land:
   - lodge or fraternal organization,
   - senior citizen centers;

35. antique aircraft;

36. some disabled veterans' residences; and

37. down-hole equipment in oil and gas wells.