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☞ Details: Follow-up to Audit Report 04-14: Evaluation of the Assessment of Manufacturing Property

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

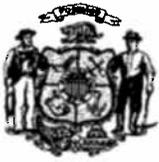
Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
 - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**



State of Wisconsin • DEPARTMENT OF REVENUE

DIVISION OF STATE AND LOCAL FINANCE • MADISON, WI

ADDRESS MAIL TO:

APR 11 2005

Area 6-97
2135 Rimrock Road • P.O. Box 8971
Madison, WI 53708-8971
TELEPHONE: (608) 266-0939
FAX: (608) 264-8887

Date April 6, 05

Sen. Carol Roessler and Rep. Sue Jeskewitz
Co-chairpersons Joint Legislative Audit Committee
State Capitol
Madison, WI 53702

Dear Sen. Roessler and Rep. Jeskewitz:

Having just started this position on January 3, 2005, I was made aware of the audit but never followed up on the response time. I reviewed the report and seeing the date of March 31, 2005, started the process of preparing a response and am gathering the necessary information. I would like to be granted an extension of no later than April 20, 2005 to submit our response to your concerns.

Sincerely,

Michael Lehman, Administrator
Department of Revenue
Division of State & Local Finance

cc: Sec. Michael Morgan
Jean Gerstner
Dan Davis
Bill Wardwell





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

April 13, 2005

Mr. Michael Morgan, Secretary
Department of Revenue
2135 Rimrock Road, #625-A
Madison, Wisconsin 53708

Dear Mr. Morgan:

In December 2004, the Legislative Audit Bureau released an evaluation of the Assessment of Manufacturing Property (report 04-14). This report included a recommendation that the Department of Revenue report to the Joint Legislative Audit Committee by March 31, 2005, on its analysis of differences in valuation methods and its efforts to monitor and ensure consistency across districts.

On April 11, we received a letter from Mr. Michael Lehman, Administrator of the Division of State and Local Finance, requesting that we extend the deadline for this follow-up report to Wednesday, April 20, 2005. We accept this proposed extension and look forward to receiving your report next week.

Thank you for your cooperation and assistance.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Mr. Michael Lehman, Administrator
Division of State and Local Finance
Department of Revenue

Janice Mueller
State Auditor



APR 22 2005



State of Wisconsin • DEPARTMENT OF REVENUE

DIVISION OF STATE AND LOCAL FINANCE • MADISON, WI

ADDRESS MAIL TO:

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DATE: April 21, 2005

TO: Carol Roessler, State Senator
Suzanne Jeskewitz, State Representative
Janice Mueller, State Auditor

FROM: Michael A. Lehman *Miskey*
Administrator, Division of State and Local Finance

SUBJECT: Amended Letter

Please note on page three, 4th bullet point the word Appraisers changed to Audits. This document replaces the one sent to you yesterday.

MLM:rmb
Attachment



State of Wisconsin ● DEPARTMENT OF REVENUE

2135 RIMROCK ROAD ● P.O. BOX 8933 ● MADISON, WISCONSIN 53708-8933 ● 608-266-6466 ● FAX 608-266-5718 ● <http://www.dor.state.wi.us>

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

April 20, 2005

Joint Audit Committee Co Chairs
The Honorable Carol Roessler
State Senator
8 South State Capitol
P.O. Box 7882
Madison, WI 53707-7882

The Honorable Suzanne Jeskewitz
State Representative
314 N State Capitol
P.O. Box 8952
Madison, WI 53708

Dear Senator Roessler and Representative Jeskewitz:

Thank you for the opportunity to respond to the Evaluation of the Assessment of Manufacturing Property. We have addressed the recommendations and are pleased to provide this update to you.

Manufacturing And Utility Section's Efforts To Ensure Consistent Assessment Practices Across District Offices

All manufacturing property must be valued in accordance with Wisconsin Statutes. State law, as noted in the Wisconsin Property Assessment Manual (WPAM), provides three approaches to estimating the market value of real property. These approaches include methodologies based upon sales, cost and income.

The sales approach is primarily used in valuing manufacturing property. However, the cost and income approaches are necessary when there are an inadequate number of sales or there are not enough comparable sales. As pointed out in the Legislative Audit Bureau's Evaluation, not every District Office weighs the various methods the same. While some variation is justified by the lack of appropriate sales, we have reviewed our procedures and methodology to ensure that these approaches are used uniformly throughout the District Offices.

Procedures that provide consistent valuation methods between districts include:

- **A Manufacturing Sales Ratio Analysis is done annually.** The most important way to measure consistency is by comparing full value assessments with the sale prices of property we assess. The analysis includes determining the assessment ratio for each District Office. Again, for 2004, we achieved a manufacturing sales ratio of 100% statewide.
- **Tracking changes in real property values that are field audited each year.** The Section Chief and the District Managers review the quality of work by individual appraisers, and by the entire District, to insure uniform approaches to value. This system allows us to review the change in value for each property and the approaches most often selected to value property. This process also allows the department to capture updated data on each property. By looking at the individual properties, the Section Chief or the Manager determine if the appropriate approach or approaches were used to value each property. If appropriate Section Chiefs or Managers may make changes in approach to insure consistency.

- **Reviewing all assessment changes of 12 ½ % or greater.** These changes are required to be reviewed by the District Manager. All field audit changes of 20% are required to be reviewed by the Section Chief. All changes over \$1 million are identified for review by the Director of the Bureau of Property Tax.
- **The Manufacturing and Utility Section Chief and District Managers comprise the State Board of Assessors.** For each appeal that is filed, the Board reviews and must approve DOR's written response. Appraisals are reviewed for consistency and reliability before they are approved. If the proper valuation approaches are not used in an appraisal, they are sent back to the District Managers for further analysis and review.
- **District Managers are required to review and analyze a sample of real estate parcels that were field audited by entry level appraisers for the current year.** Managers check for appropriate appraisal methodology and detailed information in support of the final value. Managers discuss the results of this review with both the Appraiser and the Section Chief. This insures consistency between Appraisers and between District Offices.
- **Procedural manuals will again be updated and available in an electronic format to each Appraiser and Technician.** In all District Offices, a review of the procedural manual will be conducted prior to the start of each new step of the assessment cycle.
- **Manager meeting minutes are recorded and sent to each member of the Section.** Staff meeting minutes from each District Office are sent to the Section Chief for review and then distributed to all staff members in the Section.

Revenue Capabilities Of Selling Data

We recognize that there is value in our manufacturing sales and assessment data. We will analyze the market potential when we implement our Integrated Property Assessment System (IPAS).

Tracking The 5 Year Field Audit Cycle

The Legislative Audit Bureau's Evaluation recommended a more consistent method of tracking manufacturing and telco field audits. To address this recommendation we have implemented the following:

- **Using the Mainframe Tracking Function** for completed manufacturing field audits is now mandated for each District Office.
- **Mainframe computer enhancements** are being implemented to track telco field audits.

Both of these measures will assist management with monitoring the five-year field audit cycle of manufacturing and telco property.

Prioritizing Manufacturing Field Audits

The Wisconsin Department of Revenue's 2004 and 2005 Business Plans identify assessing manufacturing parcels on a five-year cycle as a priority and has a specific performance measurement to track our progress. Resources are being allocated to the Manufacturing and Utility Section to assist in returning to a five-year field audit cycle. An Integrated Property Tax System (IPAS) is being developed to resolve many of our technology problems. But we recognize the importance of a fully trained Appraisal staff and are addressing our workforce planning issues. The strategies we have employed thus far to achieve this goal are as follows:

- The Manufacturing and Utility Section has simplified reporting and processing of the telecommunication company self-reporting forms (T-Forms). By streamlining this process, it allows Appraisers to begin the field audit cycle of manufacturing property earlier in the year.
- For the 2006 manufacturing processing year, the e-filing of the manufacturing forms will be an option for manufacturers. This again will streamline the annual assessment cycle and allow the Appraisers to be in the field and auditing earlier in the year.
- Through greater cooperation with other Sections and Bureaus, the Manufacturing and Utility Section has been able to cross train other staff to assist with our annual assessment process.
- In order to increase the number of Audits, the department has placed a priority on replacing manufacturing Appraisers as their positions become vacant. This lessens the effect of staff losses.
- In an effort to address the production loss during the training period, the department has initiated two short term strategies:
 - Hire recently retired Appraisers as limited term employees to perform field audits. The retired Appraisers are immediately productive and can be used exclusively in a field audit role.
 - Through the use of cross training, SLF has called upon existing staff from similar employing units to assist manufacturing staff, primarily during the annual assessment process. This enables the Appraisers to complete their office tasks and return to the field in a more timely manner.
- The Department has also streamlined internal procedures and IPAS will ultimately make our assessment process more efficient.
- The number of field audits performed per year for the last four years are:

2001-02	2,035
2002-03	2,414
2003-04	1,704
2004-05	1,758 (estimate)

By the 2007-08 audit cycle we plan on performing 2,500 audits per year to have us back on a 5 year cycle.

Telephone Companies

Several changes have been made to the 2005 Telco forms, reporting process and assessment procedures to streamline the assessment process and maintain the field audit cycle mandated by sec. 70.995(7)(b), Wis. Stats. These changes are the byproduct of constructive discussions between the department and Telcos on how to simplify the reporting process and better reflect the life cycle of equipment used by the industry. Moreover these changes reflect the Manufacturing and Utility Section's need to automate and streamline the assessment process.

- The following are examples of processes that have been automated and streamlined to simplify Wisconsin telecommunication company self-reporting T-Forms;
 - By combining outside plant personal property with the reporting of all other personal property, we have eliminated approximately 2,800 T-O forms and about 6,000 separate outside plant property assessments.
 - In changing the requirement that Telcos file only one T-P form to include all of their personal property located in Wisconsin, (rather than one T-P form for each municipality in which they had personal property located) we eliminated approximately 5,000 T-P forms. Municipal rates will be applied to the property reported in those municipalities to determine the final assessment.
 - The completed 2005 Excel version can be emailed to the respective DOR office for processing. Telcos no longer print volumes of paper to mail to DOR.
 - Schedule LHI (Leasehold Improvements) has been redesigned to report all costs by year without having to detail by location. However, the detail must be available to DOR Appraisers at field audit.
 - An enhancement has been submitted to add an indicator to the mainframe computer system to record the year of the last field audit of all personal property in Wisconsin owned by a Telco.

In addition to the 2005 changes summarized above, DOR is in the process of developing electronic filing of 2006 T-Forms through a web-based program.

Accuracy And Quality Of Records

Over the past three years, existing procedures and processes have been reviewed resulting in changes that have provided significant time-savings, without sacrificing the overall quality of the work. We plan to monitor these changes to ensure the measures we have taken continue to have the desired effect.

Example: In the most recent sales ratio study, the median ratio was 100% while the Coefficient of Dispersion was 15.11. These statistics are outstanding by any standard. We continue to monitor these statistics as our processes and procedures change to ensure that they remain within acceptable standards.

Senator Roessler
Representative Jeskewitz
April 20, 2004
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- **M-Forms**

The Manufacturing and Utility Section, in a joint effort with the Office of Technology Services (OTS), has undertaken development of "M-Forms E-Filing" that will allow for the electronic filing of all Manufacturing returns. There are three M-forms, the Manufacturing Personal Property Return (MP), the Manufacturing Real Estate Return (MR), and the Leased, Rented or Loaned Personal Property Located at a Manufacturer (ML). Manufacturers, taxpayers, leasing companies and agents currently file the required M-Forms on paper. To date the business requirements for this project have been completed and finalized. Our OTS staff will develop the project "in-house" and will be operational for the 2006-filing season.

SLF has a strong commitment to developing a quality product. Testing of the electronic forms is planned for late summer. The testing will involve SLF staff, a few major manufacturers and accounting firms that have agreed to participate.

Appeal Concerns

SLF has seen an increase in appeals over the last three years. We have reviewed this trend and our monitoring the effect the increase may have on workload and recent court decisions.

To expedite the appeal process and ensure that all information is provided to the Board of Assessors (BOA) we revised the manufacturing assessment objection forms as follows:

- In the instructions of the forms we reiterated sec. 70.995(8)(c)1, Wis. Stats., which requires the appellant to provide the reason for the objection, an opinion of the correct full value assessment and the basis for the opinion.
- The instructions now include a statement that all information requested on the form must be provided. Failure to provide the data will result in the BOA denying jurisdiction on the appeal.
- A statement to use and attach additional sheets if needed was added.
- Even though this has been a common practice in the past, a statement was added to the forms to say if the appellant would like to discuss the objection informally prior to BOA action that they should contact the District Office where the property is located.
- The objection forms now ask the appellant if they intend to submit supplemental information within 60 days of the appeal to expedite processing the appeal.

Performing field audits of each manufacturing and telco property at least once every five years will result in a more accurate reflection of current market trends and allow adjustments on a more timely basis. More current analysis should reduce the number of appeals.

Senator Roessler
Representative Jeskewitz
April 20, 2004
Page Six

The Department of Revenue is committed to ensuring fair and equitable tax compliance, collection and property valuation. Recommendations implemented will assist the State and Local Finance Division in achieving these goals in the assessment of manufacturing property.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Morgan". The signature is fluid and cursive, with a large, sweeping underline that loops back under the name.

Michael L. Morgan
Secretary of Revenue

cc: Ms. Janice Mueller, State Auditor,
22 East Mifflin Street, Suite 500, Madison, WI 53703

MLM:MAL:rmb





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

May 20, 2005

Mr. Michael Morgan, Secretary
Department of Revenue
2135 Rimrock Road, Room 624-A
Madison, Wisconsin 53708

Dear Mr. Morgan:

Thank you for your letter, dated April 20, which describes the steps the Department of Revenue has taken to implement the recommendations contained in the Legislative Audit Bureau's evaluation of the Assessment of Manufacturing Property (report 04-14).

Your letter demonstrates the Department's efforts to improve the assessment process by streamlining and automating various reporting requirements, ensuring there are adequate staff resources and consistent assessment practices across districts, and carefully monitoring the 5-year audit cycle.

We believe all of these efforts should help contribute to a fair and accurate assessment process to serve manufacturers and local governments throughout the State.

Thanks you for your cooperation.

Sincerely,

Senator Carol A. Roessler, Co-chair
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Janice Mueller
State Auditor