

LAC

Report to the General Assembly

May 2000

**A Review of the  
Department of  
Revenue's Vehicle  
Assessment Guides**



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*A Review of the Department of Revenue's Vehicle Assessment Guides*  
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# Synopsis

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Members of the General Assembly requested a review of the Department of Revenue's (DOR's) role in administration of vehicle personal property taxes. The requesters asked us to focus on the vehicle values DOR supplied to the counties in the fall of 1999.

We found that the vehicle assessment guides published by DOR in October 1999 contained a significant number of incorrect values, most of which resulted in an individual's property tax bill being higher than it should have been. We estimate that a minimum of 9,184 (38%) values out of 24,459 in the October assessment guides were incorrect. In April 2000 DOR estimated that more than 300,000 taxpayers may have had incorrect bills.

The problems with the vehicle assessment guides produced by DOR had several causes:

- Entering data for the guides is a labor-intensive, manual process.
- The computer database for the assessment guides has limited checks.
- DOR did not verify the data in the guides.
- The assessment process was self-contained; a single DOR employee was charged with producing the guides.
- Management did not properly supervise the production of the assessment guides.
- DOR did not provide good customer service to counties that inquired about problems.
- There are no written policies and procedures for producing the assessment guides.

We also identified other problems with the vehicle assessment guides. DOR has not used a consistent methodology to determine values for new cars and medium and heavy trucks. This results in taxpayers being treated differently. Also, DOR should consider deleting many of the heavy trucks from the guides because these trucks are now taxed under statutory provisions for motor carriers and are no longer subject to personal property tax at the county level.

When DOR management learned the extent of the problems with the guides in February 2000, the agency responded by taking several steps to correct the problems. DOR management acknowledged responsibility for the problems. The director offered the assistance of DOR employees and reimbursements (\$1 per refund check) to the counties. After an internal audit, four DOR employees were disciplined. DOR made efforts to improve service to the counties and established a team to review the system.

DOR's vehicle valuation team reviewed the system for producing the guides and recommended changes to lessen the risk of errors. DOR should implement its short-term plan to improve the quality and accuracy of the guides. DOR should also consider long-term solutions that increase the use of automation.



# Introduction and Background

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## Audit Objectives

We were requested by members of the General Assembly to review the Department of Revenue's (DOR's) role in the administration of vehicle personal property taxes. We were asked to examine the vehicle values DOR furnished to the counties in FY 99-00. Our specific audit objectives were the following:

- Determine the nature and extent of problems with the tax year 2000 vehicle assessment guides and the causes of these problems.
- Review DOR's response to vehicle assessment problems and the agency's process of identifying and correcting errors.
- Determine whether changes to the system for producing the vehicle assessment guides are necessary.

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## Scope and Methodology

We reviewed the vehicle assessment guides for cars and trucks produced by the Department of Revenue for tax year 2000 vehicle personal property taxes. We did not review any other program or area of DOR except as it was involved with the vehicle assessments.

We conducted interviews with DOR officials and county auditors. We reviewed DOR's records to include the following:

- Vehicle assessment guides.
- Computer-produced reports relating to the vehicle guides.
- Correspondence and e-mails.
- Internal audit.
- Personnel files.
- Minutes and records of quality improvement teams.

We also used National Market Reports publications on vehicle values. We reviewed a nonstatistical sample of entries from DOR's February assessment guides for automobiles and light trucks. We identified problems with the reliability of the database used to produce the vehicle assessment guides and DOR's computer-generated reports comparing values in the guides. We did not rely on this information to meet our audit objectives.

We reviewed DOR's management controls for producing the vehicle assessment guides, and also considered compliance with state law and regulations regarding vehicle personal property tax. This audit was conducted in accordance with generally accepted government auditing standards.

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## Background— The Vehicle Assessment Guides

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The South Carolina Department of Revenue (DOR) provides the counties with assessed values for vehicles that are subject to personal property tax. The counties use these values to determine the amount owed for each vehicle. According to S.C. Code §12-37-2680, DOR must publish the assessed values in guides or manuals and provide these values to the county auditors. Further, DOR has to obtain its values from a published source, and under state law, no value can be more than 95% of the previous year's value. S.C. Code §12-37-930 states:

The fair market value for vehicles, watercraft, and aircraft must be based on values derived from a nationally recognized publication of vehicle valuations, except that the value may not exceed ninety-five percent of the prior year's value.

Also, under state law no assessed value can be less than \$50 for motor vehicles.

DOR publishes separate guides with values for different types of vehicles (see Table 1.1). The department uses a series of books published by National Market Reports to determine the fair market value for most vehicles. DOR uses the lowest value contained in the publication as the fair market value of the vehicle. For most vehicles, this value is the financial or loan value. DOR selected the lowest value because the assessed value is used to determine tax bills for the entire calendar year ahead. If the tax bills were derived from the higher retail values listed, taxpayers whose bills are due at the end of the year would be paying too much.

DOR multiplies the market value by 10.5%, the assessment ratio for motor vehicles, to obtain the vehicle's assessed value. The assessed value is published in the DOR guides. DOR publishes annual guides for automobiles and light trucks in October, with supplements usually issued in January, and throughout the year when information on the value of new models becomes available.

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**Table 1.1: Vehicle Classifications and Number of Assessed Values, February 2000**

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<b>Classification</b>	<b>Number</b>
Automobiles	10,603
Light Trucks	6,489
Medium/Heavy Trucks	6,193
Motor Homes	11,605
Campers/Travel Trailers	31,580
Motorcycles	5,186
Aircraft	4,372
Watercraft	22,914
<b>TOTAL</b>	<b>98,942</b>

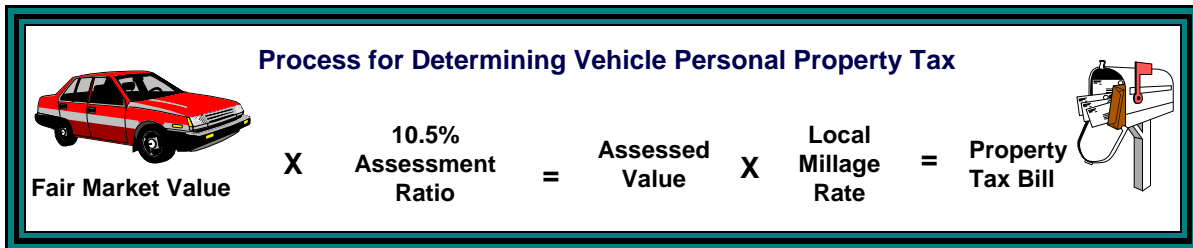
Source: Department of Revenue.

DOR has distributed its assessment guides to the counties in paper format and/or on diskette. The counties receive information about taxpayers and the vehicles they own from the Division of Motor Vehicles (DMV) of the Department of Public Safety. The counties use a variety of methods to match the assessed values they receive from DOR with the vehicle models on the DMV tapes. Some contract with computer vendors while others use in-house

systems for matching values with vehicles. The assessed value of the vehicle is multiplied by the millage rate to produce the property tax bill (see Graph 1.1). Millage rates vary from county to county and within counties, depending on such factors as school districts, municipalities, and special purpose districts.

The counties can change the assessment of the vehicle from that supplied by DOR based on taxpayer appeals, such as those for high mileage vehicles. The counties can also change the assessed value in “unusual and extenuating circumstances” (S.C. Code Reg. 117-119), such as when a vehicle has been destroyed, or upon DOR error. Also, if DOR does not supply a value for a particular vehicle, a county may supply a value from other available information.

Graph 1.1: Process for Determining Vehicle Personal Property Tax



# Audit Results

## Problems With the Vehicle Assessment Guides

### Scope of the Problem

We examined the development of the Department of Revenue's 2000 motor vehicle valuation guides. We found that the guides for cars and trucks published in October 1999 contained a significant number of incorrect values, most of which resulted in an individual's property tax bill being higher than it should have been. We also identified a number of different factors that led to development of the incorrect guides.

There are approximately three million cars and trucks registered in South Carolina. We could not determine precisely the number of incorrect values in the assessment guides or the number of taxpayers whose bills were affected by the errors. However, the effects of errors in the vehicle assessment guides were wide-ranging.

Because counties send out their tax bills 45 days before they are due, DOR's initial motor vehicle valuation guides for the year 2000 were sent to the counties in October 1999. There are three separate guides that provide values for cars, light trucks, and medium and heavy trucks. These three guides contained a significant number of errors. We were not able to obtain from DOR an exact number of incorrect values contained in the guides. However, we estimate that a minimum of 9,184 (38%) values out of approximately 24,459 were incorrect. While a majority of these values were too high, we estimate that more than 800 were too low. Table 2.1 shows a breakdown by vehicle guide.

**Table 2.1: Number of Incorrect Values by Guide**

Guide	Incorrect Values	Total Values	Percent Incorrect
Cars	4,837	11,662*	41%
Light Trucks	3,717	6,604*	56%
Medium/Heavy Trucks	630	6,193	10%
<b>TOTAL</b>	<b>9,184</b>	<b>24,459</b>	<b>38%</b>

This estimate is derived from a computer comparison of assessed values listed in the October 1999 guides with those in the January and February 2000 guides which corrected many of the errors.

\* Number of values in the October 1999 guide.

Source: Department of Revenue.

We also could not determine the number of taxpayers who were affected by the incorrect values. The counties used the guides sent out by DOR in October to compute the bills for taxpayers whose property tax was due in January, February, and, in some cases, March. There were approximately 646,000 cars and trucks with registrations that expired in those months.

If the assessed value of a vehicle is incorrect, this affects the taxpayers who own that particular vehicle. Incorrect values for commonly owned vehicles, such as a Honda Accord or Ford Taurus, will affect many more taxpayers than incorrect values for less common cars, such as expensive sports cars.

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DOR estimated the total number of taxpayers with incorrect bills at approximately 311,000.

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DOR matched changes in the assessment guides from October 1999 to February 2000 with vehicle records at the DMV to try to identify those taxpayers whose bills could have been affected by the incorrect guides. DOR estimated the total number of taxpayers with incorrect bills at approximately 311,000. We contacted 23 of the 46 counties. Twelve of these counties that had information on the number of refunds reported that they had processed a total of 57,000 refunds as of the first week in April. At the same time, the counties have incurred significant costs in correcting the errors (see p. 12).

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## Causes of the Problems

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### **Labor-Intensive, Manual Process**

The development of the motor vehicle valuation guides takes several months. The development of the guides for cars, light trucks, and medium and heavy trucks begins in July of each year when DOR obtains the fair market value (normally the loan value) of the vehicle from National Market Reports publications. These publications are provided to DOR both on paper and CD. However, DOR's procedure has been to manually key the values into its computer system. Over 24,000 values have been manually keyed into the system for these three guides.

### **Limited Computer Checks**

Once all the values have been entered, DOR runs two computer checks on the data. Under state law, no value can be more than 95% of the previous year's value and no assessment for a motor vehicle can be less than \$50. To ensure that these requirements are met, DOR's normal procedure is to run these two computer checks on the database after data entry is complete. However, these checks are not built into the system, but instead must be run by DOR's information resource management division at the request of the property

division each time they are needed. We found that the \$50 computer check was not done for the October 1999 light truck guide.

### **Self-Contained Process**

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During the keying process, the temporary employees were not properly supervised.

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Just one employee of DOR is charged with developing the valuation guides. During the time the car and light truck guides were being developed, this individual was on extended medical leave. As a result, two temporary employees entered much of the data used to develop the guides. It appears that in a significant number of cases, the values entered into DOR's computer from the National Market Reports publications were retail value and not loan value. The retail value of a vehicle is higher than the loan value, and thus would cause an individual's property tax bill to be higher.

### **Poor Supervision**

During the keying process, the temporary employees were not properly supervised. Also, the DOR employee responsible for developing the guides was not properly supervised. Immediate and higher level supervisory employees in the property division were not knowledgeable about how the guides were produced. Also, they did not review the work of the employees they supervised.

### **No Verification of Data**

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DOR was slow to react to complaints from county officials.

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It was not DOR's practice for data entered by one employee to be verified by another employee. Even after the DOR employee responsible for the guides returned from medical leave, no verification of the figures entered into the database by the temporary employees was done.

### **Poor Customer Service**

After the guides were sent to the counties, DOR began receiving complaints from county officials that the figures contained in the guides were incorrect. These complaints began as early as November of 1999 and continued through February 2000. These complaints were made to a number of different DOR employees including supervisory personnel and the director.

DOR was slow to react to these complaints. According to DOR officials, the counties have always had complaints about DOR's guides. Thus, they assumed that the complaints about the 2000 guides were similar to those DOR receives each year. In addition, there were instances where directives issued by DOR managers to identify and correct the problems were not implemented by lower-level employees.

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DOR does not have written policies for developing the values contained in the guides.

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However, based on these complaints, the DOR employee responsible for the guides began rekeying all the values in November 1999, but it was not until February 2000 that DOR management fully realized the nature and extent of the errors in the 2000 guides.

### **No Written Policies and Procedures**

DOR does not have written policies outlining what methods or procedures are to be used when developing the values contained in the guides. Also, DOR has not adequately communicated to the counties the methodologies it uses to determine the assessed values contained in its guides. For example, prior to February 2000, the guides did not include a description of the methodology used to value new model cars.

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### **Additional Problems With the Assessment Guides**

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During our review, we found additional problems with the motor vehicle valuation guides. DOR has not used a consistent methodology in developing values for *new* model cars and trucks. This results in taxpayers not being treated equally. Also, many of the values contained in the medium and heavy truck guide may be unnecessary. Finally, the corrected guides DOR produced in February 2000 still contained errors.

### **New Model Cars**

DOR has not been consistent in its methodology for determining the assessed value for new model cars. In most cases, DOR uses the loan or financial value to determine the assessed value for a vehicle. However, for most new model cars, no loan or financial value is contained in the National Market Reports publications. As a result, DOR uses values contained in the *New Car Cost Guide* to determine the assessed value for new model cars. We found problems with new car values contained in DOR's guides.



For example, DOR uses a percentage of the manufacturer's suggested retail price (MSRP) to determine the assessed value of new models. However, we found that, for the October 1998 guide, DOR used 100% of the lower dealer invoice price instead of MSRP. In its January 1999 supplement, DOR corrected this error and used 100% of MSRP to determine the assessed value. As a result, individuals with new cars whose property tax bills were due in January, February, and March had lower bills than those with the same vehicles whose bills were due later in the year.

In October 1999, DOR changed its methodology and decided to use 90% of MSRP as the basis for the assessed value for new models. Then, in its January 2000 supplement, DOR went back to its original methodology of using 100% of MSRP. Once again, individuals whose property tax bills were due in January, February, and March of 2000 would have a lower bill than those whose tax was due in the remaining months.

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DOR has not been consistent in its methodology for determining the assessed value for new model cars and trucks.

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### **Medium and Heavy Truck Guide**

DOR has not been consistent in its methodology for determining the assessed value for medium and heavy trucks. In addition, DOR should review the need for including assessed values for trucks over 26,000 pounds in the medium and heavy truck guide. Since 1998 these trucks have been taxed at the state level under statutory provisions for motor carriers and are no longer subject to personal property tax at the county level.

As with cars and light trucks, loan values for heavy and medium trucks are generally not available for the current model years. As a result, DOR decided it would use a percentage of Suggested Factory Price (SFP), similar to the MSRP for cars, to determine the assessed value for the two most recent years. The percentage of SFP which DOR has used has varied widely.

In previous years, DOR had used 65% and 55% of SFP to determine the value for the two most recent model years. However, according to DOR officials, the counties complained that the values were too low, and so DOR raised the percentages. In its October 1998 medium and heavy truck guide, DOR's methodology for determining the assessed value for 1998 and 1999 model trucks was to take 90% of SFP for 1998 models and 110% of SFP for 1999 models. However, as the result of a keying error, DOR ended up using 113% of SFP for 1999 models. DOR used this same methodology, with the same keying error, for its October 1999 guide as well.

Then, in its February 2000 guide, DOR decided that the assessed values for these trucks were now too high and decided to go back to using 65% and 55% of SFP. Due to this change in methodology, the assessed values of all 2000 model medium and heavy trucks decreased 42%.

The methodology and percentages used by DOR to determine the assessed value for medium and heavy trucks is not contained in any written policy. In addition, the method for determining the assessed value has not been communicated to the counties.

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We found that, even after DOR had corrected many of the incorrect values, the guides still contained errors.

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### **Statutory Provisions for Motor Carriers**

It is questionable whether DOR should be supplying values for many of the trucks in the medium and heavy truck guide. Under S.C. Code §12-37-2810 *et seq.*, effective in 1998, any truck with a gross vehicle weight (GVW) of greater than 26,000 pounds is to be assessed and taxed directly by DOR and not by the counties. In a limited sample of 447 models in the medium and heavy truck guide, we found 302 (68%) had GVWs greater than 26,000 pounds.

According to DOR and county officials, one reason for continuing to include these trucks in the guide is that there are instances where a truck may be classified by the manufacturer as being more than 26,000 pounds but may be registered by the owner as being under 26,000 pounds. In this case, the truck would be subject to taxation by the county, and the county would use the value in the guide to determine the tax rate. It is questionable whether there are enough of these occurrences to justify including these trucks in the guide.

### **Errors in the February Guides**

We reviewed a non-statistical sample of values contained in the February 2000 cars and light truck guides published by DOR (see p. 12). We found that, even after DOR had corrected many of the incorrect values, the guides still contained errors. In addition, county officials have also reported errors in the guides to DOR.

We reviewed a sample of 194 car values and 138 light truck values which had been incorrect in the October 1999 guides. We found that 15 (8%) of the cars and 26 (19%) of the light truck values were still in error in the February guides. In all cases except one, the correct assessed value differed from the incorrect value by less than \$100. In all the cases, the incorrect value was lower than the correct assessed value, meaning the taxpayers' bills based on these values were too low.

DOR included in the February guides a form for the counties to use in reporting any incorrect values. We reviewed forms that had been submitted and identified at least 49 values that the counties reported as incorrect and which DOR subsequently changed.

The errors were the result of several different causes. Some errors appear to be the result of keying mistakes. In addition, during the production of the February 2000 guides, DOR decided to reduce the number of listings where there were multiple entries for the same model number. This occurs when the same model car has different optional equipment or trim. In some cases, DOR consolidated entries even when values were different. In those cases, DOR took the lowest value. This results in taxpayers being treated differently. In April 2000, DOR officials stated that the law does not allow them to combine different values for the same model numbers and they will not do so in the future.

(For recommendations, see page 16.)

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## DOR's Response to Problems With the Vehicle Assessments

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Once DOR management was aware of the magnitude of the problems with the assessment guides in early February 2000, the agency took a variety of actions to address the situation.

**DOR management took responsibility for the problem.** In a February 14, 2000, memo to the counties, the director acknowledged errors in the October values supplied by DOR and apologized for the problems. She promised to do everything possible to fix the current problem and correct the system to prevent this from happening again.

**DOR offered counties DOR employees to assist with corrections.** As of April 2000, four counties had accepted assistance from DOR employees. These employees were primarily used to compare the incorrect bills to the corrected assessed values to determine which taxpayers were due a refund.

**DOR offered the counties \$1 per refund check to assist with the counties' costs.** As of April 2000, DOR is planning to pay the counties as promised, but no payments have yet been made. According to the director, they will wait until it is certain whether a pending proviso (see below) will be adopted before issuing the payment of \$1 per refund check. If this proviso is adopted, she stated it may cap reimbursements at \$275,000.

DOR is planning to use funds from its coin-operated devices fund, which according to S.C. Code §12-21-2720(F) may be used for “. . . other programs and services as the director may determine necessary and appropriate.” DOR estimates that as of June 30, 2000, there will be \$400,535 in that fund.

However, a proviso in the FY 00-01 appropriations bill passed by the House of Representatives states, “Of the funds appropriated to the Department of Revenue, \$275,000 shall be transferred to the Comptroller General to reimburse counties for a Vehicle Tax Administrative Cost Refund.” It states that the county treasurer and county auditor should determine the number of refunds needed, and submit that number to the Comptroller General for a check to be issued in an amount not to exceed \$1 per refund. When the budget is finalized, DOR plans to clarify the reimbursement process. DOR estimates that it will need at least \$310,844 to reimburse the counties.

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When the budget is finalized, DOR plans to clarify the reimbursement process.

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We spoke with officials in one-half (23) of the counties during the first week of April. Most counties said that they would definitely request the \$1 per refund check reimbursement. About one-half of the counties we contacted, however, did not have a clear estimate of how many refunds would have to be processed. The counties also noted that \$1 per refund check would not cover the costs they incurred to correct taxpayers' bills. They cited costs for overtime, computer programming, postage, envelopes, new checks, and cover letters. For example, one county had costs totaling almost \$5,200 for overtime and the cost of reprinting its March tax bills.

**DOR staff developed new guides, and distributed them to the counties.** DOR employees and a county employee worked the weekend of February 12-13, 2000, to correct the values in the guides. A new automobile assessment guide was printed on February 14 and distributed to the counties. New guides for light trucks and medium and heavy trucks came out later that week (see p. 10).

**DOR's Internal Audit Division conducted a review.** The director requested a review of the situation on February 7. In a report dated February 18, 2000, the internal auditor found:

- Improper values (retail instead of loan) were entered into the guide.
- The guide was not adequately edited prior to distribution.
- Computer checks were either not run or did not function properly.
- Property division employees were aware of the problems with the guide in early November, but were not aware of the magnitude and did not inform upper management.
- Counties were not given good customer service by DOR.
- Property division employees were not properly supervised.

**Employees involved in the situation were disciplined.** The DOR director suspended one employee for a week without pay and transferred the employee to a non-supervisory position. Two employees received written reprimands, and one employee received an oral reprimand. The disciplinary notices cited the employees for negligence of duties for their parts in the production of the incorrect guides. Poor customer relations and poor supervision were also noted as problems in the reprimands. We did not identify problems with DOR's application of these disciplinary actions.

One temporary employee involved in producing the guides had not been employed by DOR since November 1999, and the second temporary employee left DOR for another position in February 2000. Neither left the agency as a result of this situation.

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Almost 90% of the 23 counties we contacted said that they felt that DOR's response to this problem has been appropriate.

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**A vehicle valuation team was established and charged with correcting the problems.** A 12-person team of DOR staff and a county employee reviewed the system and made a presentation to all the counties on April 6, 2000 (see p. 14).

**DOR has made efforts to improve service to the counties.** To ensure better customer service with the counties, DOR began contacting counties to determine if questions were being answered promptly and politely. Also, the vehicle valuation team surveyed the counties about the vehicle assessment guides, and met with a focus group of county officials on March 14 to obtain their input on how the vehicle assessment guides could be improved. Almost 90% of the 23 counties we contacted said that they felt that DOR's response to this problem has been appropriate.

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## Changing the System for the Assessment Guides

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### Vehicle Valuation Team

The Department of Revenue has taken steps to change the system for producing vehicle assessment guides. DOR should implement its short-term plan to improve the quality and accuracy of the guides; in addition, DOR should consider long-term solutions that increase the use of automation. Also, the agency should identify and control risks in other programs with high impact on the public.

Over the years, DOR has considered changes to the system for producing the assessment guides. For example, in 1993, and again in 1998, the agency discussed and considered options for automating production of the assessment guides. According to agency officials, they did not make changes primarily because of costs. Also, the proposed automated systems would not solve all the problems associated with the guides. DOR's previous reviews of the system did not focus on ways of improving controls in the current system.

In February 2000 DOR established a vehicle valuation team that considered the following problem:

The South Carolina Department of Revenue vehicle assessment process, which provides tax guides to the forty-six counties to generate tax bills, is flawed. This results in taxpayers being billed incorrectly causing rework and frustration. This reduces the public's confidence in government.

The team, composed of 12 DOR employees and one county employee, carried out various tasks to review the system:

- Made a flowchart of the current system.
- Identified weaknesses of the current system.
- Sought input from the counties.
- Obtained information on vendors that provide values for vehicles and how they arrive at these values.
- Obtained information on systems for vehicle personal property tax in other states.
- Considered legal issues relating to the vehicle assessment guides.

The team presented its findings and recommendations to DOR management and to a meeting of county auditors in early April 2000. The group recommended that in the short term, for the automobile and light truck guides to be produced in October 2000, they should not make radical changes or do anything that could result in late or inaccurate guides. They recommended making changes in the system primarily to lessen the risk of error. These include:

- Using vehicle values from a CD produced by the vendor instead of keying all values manually.
- Adding automated checks to the computer program to ensure, for example, that a value is not more than 95% of the previous year's value.
- Adding steps to the process where data entry and corrections will be verified by a different employee from the employee who entered the data.
- Providing the counties with documentation of the source of the values and opportunities to submit corrections.
- Offering the guides to the counties in additional formats so that they might be compatible with the counties' software.

DOR staff also stated that they plan to establish written policies to document the methodology and process for compiling the vehicle assessment guides.

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The DOR team plans to keep working over the next few months to determine the best method to use for future guides.

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The DOR team plans to keep working over the next few months to determine the best method to use for future guides. Options they plan to consider include keeping production of the guides in-house, outsourcing part or all of the guides, and placing assessed values with vehicles on the DMV tapes. If they could implement a process to automatically link assessed values with individual vehicles on the DMV records, both DOR and the counties would realize time savings. Also, there would be improved consistency in the vehicle assessment process.

As of April 2000, the process of changing the vehicle assessment guides is ongoing. DOR does not yet know the details of how it will implement the new process, and the policies and procedures have not yet been written. The team has not yet reviewed some of the other vehicle assessment guides, such as those for motor homes, motorcycles, or watercraft, to determine if they have the same high error rate found in the automobile and truck guides. It is important that all of the vehicle assessment guides be subject to the policies and controls that have been designed for cars and trucks.

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## Agency Process for Quality Control

DOR officials stated that the agency may have other programs similar to the vehicle assessment guides, where employees use manual processes with few controls to produce information that could have substantial impact. In February 2000, DOR's administrator of internal audit asked that all DOR units submit to internal audit a list of any report or document the unit generates and sends to any other agency, county, or person. According to the internal auditor, the internal audit staff will review the lists and follow up for each item to determine the sources of data and controls over its accuracy.

Also, since coming to DOR in May 1999, the internal auditor has worked with a risk assessment team to determine the relative risks of different agency units. He plans to increase the internal audit division's focus on reviewing agency processes, and to use risk assessment as a primary tool to identify units and/or programs for review.

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## Recommendations

1. The Department of Revenue should implement the vehicle valuation team's short-term recommendations to improve the process for producing the vehicle assessment guides.
2. DOR should establish written policies and procedures for producing the guides and provide for proper supervision of employees.
3. DOR should establish in writing its methodology for determining the assessed value for new model cars and trucks, document any changes to the methodology, and communicate it to the counties.
4. DOR should consider eliminating trucks with a gross vehicle weight greater than 26,000 pounds from the medium and heavy truck guide.
5. DOR should ensure that it does not consolidate listings in the assessment guides for model lines where the assessed values for individual vehicles are different.
6. DOR should conduct a detailed review of the other assessment guides, such as those for motor homes, motorcycles, and watercraft.
7. DOR should continue to evaluate alternative ways that increase the use of automation to produce the vehicle assessment guides.
8. Throughout the agency, DOR should review management controls over the information it furnishes to other entities.



# Agency Comments

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**Appendix A**  
**Agency Comments**

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State of South Carolina  
Department of Revenue



JIM HODGES  
Governor

ELIZABETH CARPENTIER  
Director

OFFICE OF THE DIRECTOR  
COLUMBIA, SOUTH CAROLINA 29214-0501  
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May 18, 2000

Mr. George L. Schroeder  
Director  
Legislative Audit Council  
1331 Elmwood Avenue, Suite 315  
Columbia, SC 29201

Re: Your Draft Report of April 25, 2000

Dear Mr. Schroeder:

Thank you for this opportunity to respond to the LAC's final report delivered May 16. This letter will serve as the response of the Department of Revenue.

As a general comment, we find the report to be fair and balanced. Auditors Jane Thesing, Marcia Lindsay, and Perry Simpson have been very pleasant and professional.

As to the recommendations (page 16), the Department agrees. The major remedial efforts which began in February include all items listed in the recommendations. Processes are documented and are being amended as improvements are agreed upon. I especially appreciate the input we have received from the counties, including their time and willingness to work with us. The Department's goal is to provide the most timely, accurate, and useful information possible. We continue to work to make that goal a reality using the tools available.

The Department also agrees that its process is labor intensive, and that processes are "self-contained," having little redundancy within the agency. We have contracted with Price Waterhouse Coopers to review our data processing, to recommend improvements for speed and accuracy, and to assist us in a plan for technology infrastructure. They estimate that these changes would cost \$36.9 million in one-time expenses over five years, and \$6.25 million in recurring expenses. As we continue to work with the administration and legislature for needed funding, we also continue to use the quality improvement tools to streamline and document

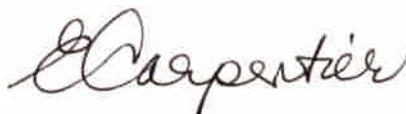
Mr. George L. Schroeder  
Legislative Audit Council  
May 18, 2000  
Page 2

manual processes, automate more functions, and cross-train staff. We are also reviewing all other reports issued by this agency for quality controls, documentation, and needed improvements.

An update on the refund source, discussed on page 12, is in order. The proviso in the House version of the FY 00-01 appropriations bill directing a \$275,000 transfer to the Comptroller General was stricken by the Senate, and will therefore be an issue before the Conference Committee. DOR hopes that this provision will be deleted from the final Appropriations Act so that the full \$310,844 can be paid to counties.

We at DOR apologize to the public for the errors and expense we have caused. We will continue to work to make it right for the citizens of South Carolina, and to ensure that problems of this magnitude do not recur. We appreciate your working with us to improve the services we provide.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "E. Carpentier".

Elizabeth Carpentier  
Director

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