

DATA MANAGEMENT AND CONTINUAL VERIFICATION FOR ACCURATE APPRAISAL REPORTS

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Executive Summary

The appraisal profession may be witnessing a paradigm shift in its use of market data. All sizes of offices are experiencing an increasing trend of reliance on purchased, vendor-supplied, unverified and invalidated information on comparable properties. The resulting market statistics must have an impact on the reliability of the final estimates of value. This new trend is in contrast to the older, traditional use of at least three good comparables that have been inspected, verified and validated. This report presents the issues, and discusses the need for all firms to view data as an asset as opposed to a liability. It recommends that all offices establish a data management system, and includes a number of recommendations. Special issues that will arise, such as data fraud and data handling procedures from the U. S. Environmental Protection Agency and the U.S. Department of Health and Human Services, are included. The single most important recommendation offered to all members of the appraisal profession is to follow the general rule to verify all data used in the analysis. Typical misconceptions that can derail the creation and operation of a data management system are discussed. The impact of new federal legislation of future auditing reports is explained, including areas where potential fraud can occur and the motivations that cause an individual to participate.

Recommendations

This report contains a number of recommendations for all firms and appraisers to adopt in the creation of a data management system:

Recommendation 1: Each appraisal firm recognizes that data is an asset and belongs on the asset side of the balance sheet.

Recommendation 2: Each firm adopts a data management policy as part of its mission statement.

Recommendation 3: Each individual in the firm is assigned a responsibility to assure that data is collected and used in a responsible manner that is consistent with the management mission statement.

Recommendation 4: The firm creates and offers a periodic educational session on the meaning of verification and validation and other terms and tasks such as data quality, documentation, and warehousing.

Recommendation 5: Misconceptions be covered and discussed in a firm educational session to mitigate any wrong perceptions that could slow the implementation of the data management system.

Recommendation 6: Each firm member is convinced that continual verification is the first priority of the appraiser in the due diligence task.

Recommendation 7: Each firm member is educated on the new federal laws covering the reporting of data and facts in a financial statement.

Recommendation 8: Firm appraisers are educated on the recommended auditing requirements that been imposed on accountants and the information that will come from these reports.

Recommendation 9: Firm appraisers are educated on the meaning of fraud, the probable places where it might occur, and the motivations for individuals to become involved.

Recommendation 10: A comparable property file (CPF) is created in each office.

Recommendation 11: The potential and feasibility of new products from the CPF is investigated.

Recommendation 12: Firm appraisers are continually educated on the importance of the file and the proper use of the statistics generated from it.

Recommendation 13: Firm appraisers are educated on the appropriate use of the statistics generated from the comparable property file and the importance of maintaining its accuracy and reliability.

Recommendation 14: The firm data systems administrator read the relevant EPA documents for specific pointers and recommendations that cover data including verification and validation.

Recommendation 15: Same recommendations for the HHS documents.

Recommendation 16: Participate in the current discussions on a possible paradigm shift to the use of secondary data

in some assignments.

One of the important conclusions originated with the non-random, selected survey of appraisal professions. Each was asked two questions:

Is a paradigm shift occurring that involves the use of verified data to the use of purchase, use of un-verified data? and, if yes,

What are the immediate solutions?

The conclusions were yes to the first, and it depends on the (a) type of user and (b) market and client served to the second.

The project is a first step only. Additional issues, such as ownership of original data and output data, will become larger.