



Department of Legislative Services  
Office of Legislative Audits

---

## State Department of Assessments and Taxation (DAT)

Report Dated October 5, 2020

Presentation to Joint Audit and Evaluation Committee

Gregory A. Hook, CPA  
Adam J. Westover, CPA  
Joseph E. McWilliams, CFE

December 8, 2020

---



---

## Report Overview

---

- DAT administers the State's real and personal property tax laws and performs certain other functions related to corporations, such as issuing corporate charters. DAT also administers programs that provide tax credits primarily to homeowners and renters who meet eligibility requirements.
- In fiscal year 2019, DAT's expenditures totaled \$145.7 million and revenue collected totaled \$318.9 million. DAT's records for the tax year beginning July 1, 2019, identified the total assessable real property tax base subject to State tax rates to be valued at approximately \$770 billion, consisting of over 2,350,000 individual properties.
- The audit report covers activity during the period from November 12, 2015 through March 24, 2019. The report contains nine findings, including three repeat findings from our preceding audit report.



## Key Findings

---

- DAT did not have adequate procedures to ensure all required physical inspections of real property were performed.
  - DAT did not use available automated reports of assessment appeals to ensure recorded appeals were subject to independent review and approval.
  - DAT lacked assurance that all personal property returns and filing fees were received timely and exemptions from paying personal property filing fees and taxes were valid.
  - DAT did not perform timely audits to help ensure the accuracy of awarded homeowners' tax credits (HTC).
  - HTCs awarded to thousands of homeowners were improperly reduced by at least \$4.4 million, resulting in an overpayment of property taxes by those homeowners.
  - Administrative leave awarded to a senior management employee at a cost of \$55,860 was not supported and exceeded the amount allowed by State regulations.
-



---

## Real Property Assessments (Finding 1)

---

DAT did not have adequate procedures to ensure all required physical property inspections were performed.

- DAT did not have adequate procedures to verify that its 24 local assessment offices properly coded building permits in DAT's automated system. We noted residential and commercial building permits totaling \$338 million that were not properly coded and therefore, were not subject to required physical inspection and reassessment.
- DAT was not aware that two local offices did not obtain or record construction project costs in DAT's automated system to enable accurate valuations.
- DAT did not always conduct periodic inspections of construction projects that were ongoing for extended periods to determine if they were complete and in need of assessment.



---

## Real Property Assessments (Finding 2)

---

DAT did not use available output reports to ensure that real property assessment appeals filed by homeowners and recorded in its automated system were subject to independent review and approval.

- DAT relied on assessors to advise them when an appeal had been processed, which did not provide the same assurances.
- During fiscal year 2018, approximately 31,000 accounts had an appeal recorded in the automated system, for which there was no assurance of independent review and approval, as required.
- Consequently, we tested 10 appeals recorded in the automated system and found that they all agreed with supporting paper documentation, and that 9 had been approved by supervisory personnel, as required by DAT policy.



---

## Personal Property Assessments (Finding 3) **Repeat Finding**

---

DAT did not ensure that all required personal property returns and filing fees were received, that exemptions from filing a return and paying the fee were valid, and did not pursue delinquent penalties for collection.

- Specifically, DAT did not
  - review Comptroller of Maryland records to identify entities that should be filing a personal property return,
  - investigate returns with significant fluctuations or variances in reported property from previous years to identify discrepancies, nor
  - have a comprehensive process to ensure the propriety of exemptions from personal property assessments and filing fees.
- In addition, DAT did not pursue penalties provided by State regulations for untimely submission of personal property returns. As of May 2019, 2,354 accounts with late filing penalties delinquent for 3 to 17 months and totaling \$184,872 had not been referred to the State's Central Collection Unit.



---

## Homeowners' Tax Credit (Finding 4) **Repeat Finding**

---

DAT did not perform timely audits of Homeowners' Tax Credit (HTC) applications.

- DAT did not conduct random audits of applications since 2009 and did not audit activity on DAT reports of questionable activity for several years. For example, as of June 2019, DAT had not audited HTC application discrepancies between the application and the applicant's tax return since 2014.
- Due to resource limitations, effective March 2019, DAT is no longer reviewing reports of redeemed HTCs prepared by local jurisdictions to ensure they were proper. Prior to this date, nine jurisdictions did not submit some or all of the monthly reports.
- DAT did not ensure that local jurisdictions submitted requests for reimbursement for redeemed HTCs to DAT as required by State law.
- DAT did not have procedures to ensure that local jurisdictions recovered and remitted HTCs when homeowners transferred their property during the year.



---

## Homeowners' Tax Credit (Finding 5)

---

DAT did not ensure HTC's were properly calculated. We received a referral on our fraud, waste, and abuse hotline regarding improperly reduced HTC's and initiated a review of the HTC process in 10 jurisdictions and noted the following:

- DAT did not periodically review programming of its automated system to ensure HTC's were properly calculated.
- DAT did not properly segregate duties for manually processed HTC's or ensure they were properly documented and adequately supported. We noted numerous HTC's that lacked supporting documentation and that were calculated improperly without detection.
- HTC's awarded to thousands of homeowners primarily in Montgomery County (but also Baltimore City) were improperly reduced by at least \$4.4 million,
  - DAT received advice from its legal counsel on January 23, 2019 that confirmed that its HTC calculation methodology was incorrect.
  - DAT does not intend to refund homeowners for the amounts overpaid.





## Payroll (Finding 6)

---

DAT awarded \$55,860 in paid administrative leave over five months to a senior management employee without any documentation.

- The administrative leave was in excess of the 10 days allowed by State regulations and was not documented.
- Senior management would not provide us with an explanation for the leave claiming executive privilege.
- DAT did not dispute the facts in our report but disagreed with the finding claiming this was outside of the scope and timeframe of the audit. Clearly personnel matters are within the scope of our audits; and OLA cannot ignore known significant events which occur after our audit period end date, but prior to report issuance, which is explained in the Audit Scope, Objectives, and Methodology section of our report.



---

## Other Findings (Findings 7, 8, and 9)

---

### Cash Receipts

- **Finding 7** - DAT did not have adequate controls to ensure that collections were properly accounted for and deposited timely.
- **Finding 8** - DAT did not perform an independent supervisory review of corporate charter transactions to ensure that the proper fees were charged and collected.
  - We received a referral to our fraud, waste, and abuse hotline related to the collection of expedited processing fees and our review disclosed that expedited processing fees for 3,277 documents were not collected.

### Information Systems Security and Control

- **Finding 9** - DAT's procedures for logging and monitoring critical database and mainframe security events were not sufficient. **Repeat Finding**



---

## Conclusions

---

DAT should implement comprehensive procedures to:

- ensure physical inspections are performed as required;
- use available output reports to review and approve appeals;
- use available Comptroller reports to identify businesses not registered to file a personal property return, perform supervisory reviews of exemptions, and pursue collections of unpaid penalties;
- perform timely audits of HTC applications, ensure local jurisdictions submit monthly reports of redeemed HTCs, and use the reports to certify payments to the Comptroller prior to payment;
- discontinue improperly deducting tax credits except as allowed by law, and consult with counsel on how to refund the improperly applied credits;
- ensure administrative leave is awarded in accordance with State regulations and determine the feasibility of recovering the improperly awarded leave; and
- take appropriate action to address the remaining findings in our report.