



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

April 1, 2019

Gregory A. Hook, CPA
Legislative Auditor

Senator Nancy J. King, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator King and Delegate McIntosh:

The Office of Legislative Audits (OLA) has reviewed the actions taken by the State Department of Assessments and Taxation (DAT) to resolve the repeat findings in our February 22, 2018 audit report. This review was conducted in accordance with a requirement specified in the April 2018 *Joint Chairmen's Report* (JCR), page 32. The JCR required that, prior to the release of \$100,000 of its administrative appropriation for fiscal year 2019, DAT must take corrective action with respect to all repeat audit findings on or before November 1, 2018. The JCR language further provided that OLA submit a report to the budget committees listing each repeat audit finding along with a determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year.

The February 22, 2018 audit report of DAT contained six repeat audit findings (Findings 3, 5, 6, 7, 8, and 10) that were addressed by ten recommendations. In accordance with the April 2018 JCR requirement, DAT provided a report to OLA, dated November 1, 2018, detailing the corrective actions that it had taken with respect to the repeat audit findings (**Exhibit 1**). The DAT status report indicated that corrective actions had been completed to address the recommendations for Findings 3, 5, 7, 8 and 10, and that corrective actions were ongoing for repeat recommendations from Finding 6. DAT's status report also addressed certain recommendations that were not applicable to repeat findings; and consequently we did not assess the corrective actions taken for these recommendations.

We reviewed the DAT status report and related documentation, performed limited tests and analyses of the information, and held discussion with DAT personnel as necessary to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards. Based on our review, we determined that DAT had resolved Findings 3, 5, 7, and 8, but not taken sufficient actions to correct repeat Findings 6 and 10 (**Exhibit 2**). Our assessment of the two repeat findings that had not been resolved is included in **Exhibit 3**.

After discussing our review results, DAT generally agreed with the accuracy of the information presented. We wish to acknowledge the cooperation extended to us during the review by DAT and its willingness to address the audit issues and implement appropriate corrective actions.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,



Gregory A. Hook, CPA
Legislative Auditor

cc: Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
Honorable David R. Brinkley, Secretary, Department of Budget and Management
Michael L. Higgs, Jr., Director, Department of Assessments and Taxation
Joan Peacock, Manager, Audit Compliance Unit, Department of Budget and Management
Victoria L. Gruber, Executive Director, Department of Legislative Services
Benjamin B. Wilhelm, Policy Analyst, Department of Legislative Services

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

LARRY HOGAN
GOVERNOR

BOYD RUTHERFORD
LT. GOVERNOR



MICHAEL HIGGS
DIRECTOR

DENISE HERNDON
DEPUTY DIRECTOR

Maryland State Department of Assessments and Taxation's Administrative Appropriation Restriction Report for OLA

November 1, 2018

Note: Names of individuals and companies contained
in this document have been redacted by the OLA.

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Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

State Department of Assessments & Taxation Corrective Actions Status Update for OLA Audit Report Dated February 22, 2018

Status Update Summary

Finding Number	OLA Finding	OLA Recommendation	Current Status	Page Number
3	OLA Finding 3: DAT did not ensure that real property data recorded in AAVS were complete and accurate, and did not document supervisory reviews of assessment appeals and real property exemptions.	OLA Recommendation 3: We recommend that DAT enhance procedures by requiring each local assessment office to	Corrective Action Complete	2
		a. establish initial accountability and control over all property-related documents manually received from local governments, including deeds and permits (repeat);	Corrective Action Complete	3
		b. resolve building permit processing errors and ensure the permits are subsequently recorded (repeat), and investigate the aforementioned building permit recording and processing errors; and	Corrective Action Complete	4
5	OLA Finding 5: DAT did not effectively use various automated reports it created to help identify improper credits for review and follow-up.	c. ensure that building permit data, property tax exemption transactions, and real property appeal decisions are properly recorded in AAVS based on supervisory review of supporting documentation and that these verifications are documented (repeat).	Corrective Action Complete	4
		OLA Recommendation 5: a. perform an analysis of personnel and resource funding requirements and develop a comprehensive compliance program to help ensure that HPTCs are only granted for eligible properties (repeat); and	Corrective Action Complete	4
6	OLA Finding 6: DAT had not performed timely and comprehensive verification procedures to help ensure the accuracy of HTC awards and did not verify the propriety of redeemed HTCs and related reimbursement requests from local jurisdictions.	b. review reports of potentially ineligible accounts, including those noted above, and take appropriate corrective action (repeat).	Corrective Action Complete	4
		OLA Recommendation 6: a. perform timely audits of HTC applications (repeat);	Corrective Actions In Progress	5
		b. develop output reports of manually processed HTCs and perform independent reviews of manually processed HTCs, including those noted above;	Corrective Action Complete	5
		c. take appropriate action to recover HTCs that are determined to be potentially improper; and	Corrective Action Complete	6
7	OLA Finding 7: DAT's procedures for logging and monitoring critical database and mainframe security events were not sufficient.	d. ensure local jurisdictions submit monthly files of redeemed HTCs, review differences between the amounts of redeemed HTCs and those authorized by DAT, and use the files to verify the propriety of reimbursement requests (repeat).	Corrective Actions In Progress	6
		OLA Recommendation 7: a. log all critical database security and audit-related events, regularly generate reports of these logged events, review these reports on a timely basis, document these reviews, and retain the documentation for future reference; (repeat) and	Corrective Action Complete	6
8	Finding 8: IDPS protection did not exist for untrusted traffic entering the DAT network and numerous DAT workstations were running an outdated and unsupported operating system.	b. generate reports of critical mainframe security events and transactions, perform reviews of these reports (including examination of supporting documentation), document these reviews and retain the documentation for future reference.	Corrective Action Complete	6
		OLA Recommendation 8 perform a documented review and assessment of DAT network security risks and identify how IDPS coverage should be best applied to the DAT network to include IDPS coverage to all inbound untrusted traffic, (repeat) and	Corrective Action Complete	7
10	OLA Finding 10: Controls were not in place to ensure that personal property filing fee collections were properly counted for, secured, and deposited.	b. ensure that all workstations run operating system software that is currently supported by the related manufacturer.	Corrective Action Complete	7
		OLA Recommendation 10 a. Restrictively endorse and record all checks immediately upon receipt, and safeguard and document the disposition of all checks received.	Corrective Action Complete	7
		b. Perform independent and proper deposit verifications, including using the original record of checks received (repeat).	Corrective Action Complete	8

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State Department of Assessments & Taxation Corrective Actions Status Update for OLA Audit Report Dated February 22, 2018

OLA Finding 3:

DAT did not ensure that real property data recorded in AAVS were complete and accurate, and did not document supervisory reviews of assessment appeals and real property exemptions.

OLA Recommendation 3:

We recommend that DAT enhance procedures by requiring each local assessment office to

- a. establish initial accountability and control over all property-related documents manually received from local governments, including deeds and permits (repeat);**
- b. resolve building permit processing errors and ensure the permits are subsequently recorded (repeat), and investigate the aforementioned building permit recording and processing errors; and**
- c. ensure that building permit data, property tax exemption transactions, and real property appeal decisions are properly recorded in AAVS based on supervisory review of supporting documentation and that these verifications are documented (repeat).**

Recommendation 3a Establish initial accountability and control over all property-related documents manually received from local governments, including deeds and permits (repeat).

SDAT Response: Corrective actions are complete.

For Deeds:

The Land Records Office in each county forwards the recorded deed with a property transfer sheet to the local SDAT county office. Deeds are received in 2 forms depending on the local jurisdiction's technology:

- 1) Electronic deed documents received via email from Land Records, and
- 2) Paper deed documents from Land Records.

As required by Tax-Property Article §3-104(a)(2), the Supervisor of Assessments transfers ownership of property as of the date of deed recordation. A new SDAT local office process has been established that requires SDAT local office managers to create a daily record of deeds received in the Monthly Transfers Source Log [REDACTED]. For electronic deeds received via email, the email is printed out each day and retained until the month end verification and reconciliation with the AAVS system. In jurisdictions that still courier paper deeds, the deeds received are physically counted and recorded in the Monthly Transfers Source Log. All paper deed documents are retained by the Office Supervisor until the month end verification and reconciliation with the AAVS system. At the end of each month, the Local Office Supervisor runs an AAVS Transfer Verification Report by Source Date and compares this report with the Monthly Transfers Source Log to verify that all deeds received are recorded on the Monthly Transfers Source Log and in the AAVS system. Any discrepancies are researched and resolved.

On a monthly basis, Local Office Supervisor randomly selects 20 deeds to review and verify each deed is accurately and correctly recorded in AAVS.

In January 2018, an online electronic workbook was created in SDAT [REDACTED] to record these verifications, including: local county office, the list deeds by account number reviewed, the date reviewed, liber and folio numbers, the status of review, explanation of errors found if applicable, corrective actions taken, and follow-up review notes if applicable. Workbook entries are reviewed by the Area Supervisors and State Supervisor on a monthly basis.

For Permits:

As required by Tax-Property Article §5-103 local governments must forward a copy of all issued building permits to the county assessment office. Approximately 8 counties currently provide electronic permit data, the remaining 16 local governments submit paper permits. When paper permits are received, the permits are sorted by dollar value upon receipt at the local SDAT office.

- (1) **Permits \$100K or more** are keyed into AAVS and result in a real property reassessment that tax year. These permits are retained and filed by month and year.

Exhibit 1 to April 1, 2019 Letter to Joint Chairmen

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- (2) Permits less than \$100K are keyed into AAVS and result in a reassessment during the next reassessment cycle. These permits are retained and filed by month and year.
- (3) Permits that do not affect assessed value, such as permits for fences, sheds, retaining walls, electrical outlets, etc., are not recorded in AAV. These permits are grouped by date received and retained for 3 years by the local office.

A new SDAT local office process has been established that requires SDAT staff to scan paper permits received to create the initial record of receipt as follows. Paper permits (\$100K or more, and less than \$100K) are physically counted and recorded in the Monthly Permits Received Log. Once paper permits that affect the property value are keyed (\$100K or more, and less than \$100K), they are retained by the Office Supervisor until the month end verification and reconciliation with the AAVS system. Electronic permits are imported into AAVS. If there are errors in the import process, a report of import errors is sent to the local office. Errors that prevent upload into AAVS include invalid real property account number, duplication of permit data already recorded in AAVS, and permits for accounts not in AAVS in the case of new construction. At the end of each month, the Local Office Supervisor runs an AAVS Permits Received Verification Report from the AAVS Production database and compares this report with the Monthly Permits Received Log to verify that all permits received are recorded on the Monthly Permits Received Log and in the AAVS system. Any discrepancies are researched and resolved. On a monthly basis, the Local Office Supervisor randomly selects 20 permits to review and verifies that each deed is accurately and correctly recorded in AAVS.

In January 2018 an online electronic workbook was created in SDAT [REDACTED] to record these verifications, including: local county office, the list permit numbers and corresponding account reviewed, the date reviewed, the permit type, the permit status (complete or pending), the status of review, explanation of errors found if applicable, corrective actions taken, and follow-up review notes if applicable. Workbook entries are reviewed by the Area Supervisors and State Supervisor on a monthly basis.

Recommendation 3b *Resolve building permit processing errors and ensure the permits are subsequently recorded (repeat), and investigate the aforementioned building permit recording and processing errors.*

SDAT Response: Corrective actions are complete.

SDAT has implemented a new process for paper permits using the AAVS Permits Received Report. All permits affecting property valuation (\$100K or more, and less than \$100K), are captured in the AAVS Permits Received Verification Report from the AAVS Production database. Permits Received Verification Report searches the audit trail for an "insertion" of a permit, which captures both electronic and paper permits. Permits received electronically are imported into AAVS by HQ staff. A weekly report of import errors is emailed to the local SDAT office. Errors that prevent permit data upload into AAVS include invalid real property account number, duplication of permit data already recorded in AAVS, and permits for accounts not in AAVS in the case of new construction. The office manager researches all import errors and keys the correct permit data into AAVS. The SDAT County Supervisor or his/her designee review each error report to verify that the cause of each import error has been resolved. The weekly error report is initialed and dated to document supervisory review. *Please note, if the user enters a new permit on the account in error and later deletes that permit, the permit creation, and deletion data will be captured in the AAVS audit trail, and will appear in the report.*

Any discrepancies between AAVS Permits Received Verification Report and the Monthly Permits Received Log and all Error Report entries are investigated and resolved. Possible reasons for discrepancies:

- A permit that affects property value was not entered in AAVS.
- The count to the total paper permits received is incorrect or the count of no value change permits, which are not tracked, is incorrect.
- Duplicate permit keyed into the system twice or In-House/ Office Permit In Verification

After the Permit Received Verification Report and Monthly Permit Received Log have been reconciled, and items on the Error Report resolved, the employee performing reconciliations, signs and dates the reports. The County Supervisor verifies the reconciliation and signs and dates the reports. These reports are retained for 3 years.

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Recommendation 3c *Ensure that building permit data, property tax exemption transactions, and real property appeal decisions are properly recorded in AAVS based on a supervisory review of supporting documentation and that these verifications are documented (repeat).*

SDAT Response: Corrective actions are complete.

The process for verifying permit data is outlined above in response to 3b.

For Tax Exempt Real Property Transactions - A weekly AAVS Exception Report is generated and sent to each SDAT county office. The Exception Report is a list of all real property account transfers in that week with a tax exemption at the time of transfer. The office manager researches transactions on the report and takes the appropriate action, usually to remove the tax exemption. However, there are instances, such as the death of a spouse, when ownership is transferred from joint to the surviving spouse, in this case, the tax exemption should remain in place. The SDAT Assistant County Supervisor, or his/her designee, reviews each exception report to verify that each exception has been resolved. The weekly exception report is initialed and dated to document supervisory review.

For Real Property Appeal Decisions - As required by Tax-Property Article §8-205(c), the appeal of an assessment shall be noted in the assessment worksheet that relates to the property whose value or classification was appealed. Supervisors are now required to ensure that the reviews are documented by initialing and dating the right top corner of the appeal worksheet at the time of his/her review.

OLA Finding 5: *DAT did not effectively use various automated reports it created to help identify improper credits for review and follow-up.*

OLA Recommendation 5:

- a. *perform an analysis of personnel and resource funding requirements and develop a comprehensive compliance program to help ensure that HPTCs are only granted for eligible properties (repeat); and*
- b. *review reports of potentially ineligible accounts, including those noted above, and take appropriate corrective action (repeat).*

Recommendation 5a. *Perform an analysis of personnel and resource funding requirements and develop a comprehensive compliance program to help ensure that HPTCs are only granted for eligible properties (repeat).*

DAT Response: Corrective actions are complete.

At the time of review, SDAT was running income tax record matching reports with the IRS data received; however, this data was being received up to two years after the application was received, as it was based upon federal tax returns. The Agency has since developed a report based upon MVA records, which is timelier. The Compliance Director and Deputy Director oversees the Homestead Division to ensure the MVA report is being reviewed by auditors on a monthly basis, and tracks the volume of applications tagged from the report.

Weekly Performance Reports are now reviewed, which track the volume of applications each auditor modifies from Pending to Approved or Denied status. In addition, the County Conflict Report is now being tracked monthly. At the beginning of each month the Homestead Audit Supervisor forwards the County Conflict Report to the Compliance Director. This Conflict Report details every pending application sent to the counties for their review and comment. The State Supervisor for Real Property then receives a report from the Compliance Director outlining the number of applications that have been on the report 60 or more days. Any applications on the Conflict Report for over 90 days are sent directly to that county office's supervisor and their Regional Assessments Supervisor, and a resolution is required within one week. From the inception of compliance monitoring, the Homestead Division has lowered the aged accounts on the Conflict report from 952 in May of 2018 to 14 in August of 2018, and continues to utilize the report to manage application variances.

The Homestead Audit Supervisor also runs the Statistical Summary of Pending Accounts, which is monitored monthly for compliance. This report shows accounts flagged as pending prior to the date chosen. From this report, auditors can target applications received last year and not yet determined as approved or denied. This report defaults to the date

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of the first application received, not later applications; therefore, a small number of aged applications are expected to be on the Pending Accounts report as deed changes are flagged for review, or owners re-apply for the tax credit. But the combination of these reports mentioned, properly utilized and monitored within a compliance program, has drastically lowered the volume of pending applications, and captured ineligible properties. The OLA Audit Report found a backlog of 25,919 pending applications in the Homestead Division at the time of their analysis. This number has now dropped to 13,320 as of March 26, 2018 and to 6,710 accounts as of August 14, 2018, which is the expected volume going forward. The Agency is confident that the new audit reports and continued oversight of the division will end any backlog in the future.

The Department will further be able to address staffing efficiency and improve the compliance program in the homestead tax credit unit with existing staff and resources as a result of new strategic enterprise application system, SEAN. Currently in the implementation phase, SEAN is a web-based computer application that is applicant facing as well as offering an internal processing function that will significantly expedite all aspects of the property tax credit process. This will allow the Department to accelerate the staff review and processing of pending homestead tax credit applications.

Recommendation 5b. *Review reports of potentially ineligible accounts, including those noted above, and take appropriate corrective action (repeat).*

SDAT Response: Corrective actions are complete.

In addition to complying with Tax-Property Article §9-105(6)(i), removing the Homestead Tax Credit from 9,252 accounts in February 2017, and the March 2017 redesign and weekly resolution of homeowner accounts on the Homestead Conflict Report, in June 2018 the Department established a new monthly data sharing process for cross-checking MVA name and address records with the Homestead Credit Application System (HCAS) Credit system. New homeowners are required to submit a change of address to the MVA within 60 days of the change. Since this is a monthly data match there is a greater potential for identifying ineligible homestead tax credits. The initial monthly MVA match resulted in identifying 89 accounts receiving a homestead tax credit, but may be ineligible and 39 accounts that may be eligible for, but are not receiving a Homestead Tax Credit. The most recent October 2, 2018, MVA match identified 50 accounts that may be receiving a homestead tax credit but may be ineligible. A letter is sent to all homeowners identified as possibly ineligible for a homestead tax credit requesting documentation. If the homeowner does not provide the requested documentation within 60 days their homestead tax credit application is denied.

The Homestead Tax Credit clerical team continues to send follow up letters to applicants with a pending homestead application to obtain documentation that will resolve the following scenarios:

- Incomplete Application
- Invalid Social Security Number - the applicant or co-owner's social security number is not correct
- Application Information does not match the IRS data on file
- Co-Owner or Spouse Missing - co-owner is listed on the deed or the applicant is married and information for the co-owner or spouse is not provided on the homestead tax credit application
- Signature Missing
- New Purchaser
- Driver/Motor Vehicle License Discrepancy

If the homeowner does not provide the requested documentation within 60 days their homestead tax credit application is denied.

OLA Finding 6: *DAT had not performed timely and comprehensive verification procedures to help ensure the accuracy of HTC's awarded and did not verify the propriety of redeemed HTC's and related reimbursement requests from local jurisdictions.*

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OLA Recommendation 6:

- a. perform timely audits of HTC applications (repeat);*
- b. develop output reports of manually processed HTCs and perform independent reviews of manually processed HTCs, including those noted above;*
- c. take appropriate action to recover HTCs that are determined to be potentially improper; and*
- d. ensure local jurisdictions submit monthly files of redeemed HTCs, review differences between the amounts of redeemed HTCs and those authorized by DAT, and use the files to verify the propriety of reimbursement requests (repeat).*

Recommendation 6a. Perform timely audits of HTC applications (repeat).

SDAT Response: Corrective actions are in progress.

The Tax Credit Audit group continues to use ADC to track audited accounts and perform correction calculations. Tax Credit Audit group has moved from a paper-based system with manual handwritten notes to a Shared spreadsheet and several Business Personal Property Auditors have been cross-trained and are providing assistance to the Tax Credit Audit group. In addition, student interns are locating and matching prior year applications to allow the Auditors to concentrate on auditing instead of searching and matching files. As a result, the Tax Credit Audit group has made significant progress in reducing the backlog of audits. The 20% audits for 2015/2016 are in progress. A total of 6,078 applications have been flagged for audit of those, 3,592 have been completed and the Tax Credit Audit group expects to begin 2015 IRS audits by December 28, 2018.

The new strategic enterprise application system, SEAN, currently in the implementation phase will have a substantial positive impact on the Tax Credit Audit group. Once implementation is complete, tax credit audits will be categorized into two categories, Pre Audits and Post Audits. Pre Audits will occur after standard processing before the tax credit is approved, including a quality assurance (QA) review of the documentation provided with the tax credit application. Once the QA review is completed, the tax credit will be approved and processed for payment, or tax credit package will be returned to the supervisor for correction and then cycle back through the QA review. Post Audits will follow the same process as the current audits but, there will be fewer audits because errors will be detected prior to initial tax credit approval, and all the documents the auditor needs will be easily accessible electronically through the SEAN system.

Recommendation 6b. Develop output reports of manually processed HTCs and perform independent reviews of manually processed HTCs, including those noted above.

SDAT Response: Corrective actions are complete.

The Department continues to use the separate PCA 6110 to process, track and monitor the number and amount of manually calculated tax credits. On a monthly basis, the Tax Credit Program Manager receives a FMIS DAFR7470 Report from Accounting. A monthly independent review and reconciliation of manually calculated tax credits to the DAFR7470 is completed to verify only authorized manual tax credits were processed for payment.

Recommendation 6c. Take appropriate action to recover HTCs that are determined to be potentially improper.

SDAT Response: Corrective actions are complete.

When the Department, in compliance with COMAR 18.07.02(G)(02), performs a tax credit audit and determines a homeowner received a tax credit greater than he/she was eligible for, the homeowner is sent an initial invoice for the overpayment. The homeowner may make a lump sum payment or may make payment arrangements. If payment is not received or a payment plan established, the homeowner is sent 3 delinquent notices at 30, 60, and 90 days. Any account more than 90 days delinquent is referred to CCU for collection.

Recommendation 6d. Ensure local jurisdictions submit monthly files of redeemed HTCs, review differences between the amounts of redeemed HTCs and those authorized by DAT, and use the files to verify the propriety of reimbursement requests (repeat).

SDAT Response: Corrective actions are in progress.

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Nineteen (19) of the twenty-four (24) local jurisdictions now submit monthly electronic files of redeemed Homeowners' and Renters' Tax Credits, and development of simplified reporting requirements for the 5 remaining local jurisdictions are in progress. Tax Credit Management Team is conducting meetings with the finance personnel in each jurisdiction to explain the reporting process in detail and provide an implementation demonstration.

OLA Finding 7: *DAT's procedures for logging and monitoring critical database and mainframe security events were not sufficient.*

OLA Recommendation 7:

a. log all critical database security and audit-related events, regularly generate reports of these logged events, review these reports on a timely basis, document these reviews, and retain the documentation for future reference; (repeat) and

b. generate reports of critical mainframe security events and transactions, perform reviews of these reports (including examination of supporting documentation), document these reviews and retain the documentation for future reference.

Recommendation 7a. *Log all critical database security and audit-related events, regularly generate reports of these logged events, review these reports on a timely basis, document these reviews, and retain the documentation for future reference; (repeat).*

SDAT Response: Corrective actions are complete.

All critical database security and audit-related events are logged and reviewed on a daily basis by the SDAT Security Officer. Any unusual or suspicious activity is investigated by the SDAT Security Officer. All investigation documentation is kept in folders in the Security Officer's and Data Processing Manager's email and in the Daily Log.

Recommendation 7b. *Generate reports of critical mainframe security events and transactions, perform reviews of these reports (including examination of supporting documentation), document these reviews and retain the documentation for future reference.*

SDAT Response: Corrective actions are complete.

The database Trace Report of login id modifications, rule modifications, and access logs for specific tables and datasets is reviewed on a monthly basis by both the Database Administrator and the Data Processing Programmer Manager. Each report is checked for unusual or suspicious activity and then initialed and dated. These reports are then maintained for later review and future reference.

Finding 8: *IDPS protection did not exist for untrusted traffic entering the DAT network and numerous DAT workstations were running an outdated and unsupported operating system*

OLA Recommendation 8

a. perform a documented review and assessment of DAT network security risks and identify how IDPS coverage should be best applied to the DAT network to include IDPS coverage to all inbound untrusted traffic, (repeat) and
b. ensure that all workstations run operating system software that is currently supported by the related manufacturer.

Recommendation 8a. *Perform a documented review and assessment of DAT network security risks and identify how IDPS coverage should be best applied to the DAT network to include IDPS coverage to all inbound untrusted traffic, (repeat).*

SDAT Response: Corrective actions are complete.

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As an IT enterprise agency, SDAT has worked through DoIT to address this IDS/IPS finding. SDAT firewall policies were reviewed and updated by DoIT to ensure compliance with the DoIT RevO firewall baseline policy. The RevO final review was completed and IDPS coverage has been applied to all firewall policies to meet OLA audit requirements.

Recommendation 8b. *Ensure that all workstations run operating system software that is currently supported by the related manufacturer.*

SDAT Response: Corrective actions are complete.

All of SDAT's workstations have been replaced and now run on a supported operating system.

OLA Finding 10: *Controls were not in place to ensure that personal property filing fee collections were properly accounted for, secured, and deposited.*

OLA Recommendation 10

a. *Restrictively endorse and record all checks immediately upon receipt, and safeguard and document the disposition of all checks received.*

b. *Perform independent and proper deposit verifications, including using the original record of checks received (repeat).*

Recommendation 10a. *Restrictively endorse and record all checks immediately upon receipt, and safeguard and document the disposition of all checks received.*

SDAT Response: Corrective actions are complete.

The Department has completed corrective actions for restrictively endorsing all checks immediately upon receipt. In February 2017, in response to the audit fieldwork, all Charter Filing employees were provided a restrictive State of Maryland "for deposit only" endorsement stamp. In addition, all administrative staff in Accounting and the Office of the Director have been provided a restrictive State of Maryland "for deposit only" endorsement stamp. If any employee that receives mail that contains a check, the check is immediately restrictively endorsed at the time the mail is opened and hand carried to the Accounting Department for deposit. In recent months the Department has begun discussions with [REDACTED] to implement new technology that would allow Charter staff to deposit checks contemporaneously with the processing of Charter documents and filings, resulting in same day deposit into the SDAT [REDACTED] lockbox account.

Recommendation 10b. *Perform independent and proper deposit verifications, including using the original record of checks received (repeat).*

SDAT Response: Corrective actions are complete.

Independent reconciliations of collections occur on a daily and monthly basis as follows:

Revenue from NIC - online (credit cards & checks) Multiple NIC Reconciliations have been completed by Accountant staff who compiles all sources documents through NIC payment records to MBES, to STO ACH reports to R*STARS as follows:

1. **Charter** - Compares NIC Engine Charter Merchant Disbursement Report with the EFT R3400 - 9667 "State Treasurer's Office R*STARS ACH Entries". Both documents are compared to MBES "NIC Report - Bank Deposits Charter" and the bank statement. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.
2. **NIC UCC** - These collections represent money received in Charter for UCC. EFT R3400 - 9664 "State Treasurer's Office R*STARS ACH Entries" is compared to the Daily UCC - Deposit Batch Processing document (processed by [REDACTED]). The Deposit Batch Processing document is reconciled with the daily Payment Type Report Results. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.

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3. OTC - MBES report Deposit List by Payment Type is compared to EFT R3400 - 9669 "State Treasurer's Office R*STARS ACH Entries" and to the NIC Engine - OTC Merchant Disbursement. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.

Revenue from Front Counter and Charter (cash, checks, and credit cards) and revenue from daily Charter processing work (checks).

1. **Daily revenue from Front Counter operations in Charter (cash)** - Cash is counted twice, once by Charter and a second time by Accounting. The cash deposit is prepared and locked in the Charter safe until picked up by [REDACTED]. A Cash Register Report is printed and used to reconcile against MBES Detail Daily Deposit Report. At the end of each month daily cash deposits are reconciled to the [REDACTED] statement. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.
2. **Daily revenue from Charter processing work (checks)** - Batches of checks processed by Charter on the previous business day are scanned through [REDACTED] by Accounting and electronically transmitted to [REDACTED]. The total number of checks and the check amounts are verified against MBES Detail Daily Deposit Report and the daily CashPro Deposit Report. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.
3. **Credit Card report "Point of Sale Report"** is printed at end of day tallying total credit card payments. Accounting receives the report and verifies receipts to MBES Detail Daily Deposits Report. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.

Revenue from ACH payments - (via the Treasurer) for local county cost-share payments, franchise tax payments, and NIC payments. ACH reports for R3400 for NIC reconciliation and R2500 ACH reports for lockbox reconciliation are distributed to Accounting staff for reconciliations. The Accounting Director completes the reconciliation process for the remaining ACH's payments. ACH reports are reconciled to the Franchise Tax records to verify utility taxes are received and allocated to the proper account. The remaining ACH payments amounts are matched to Local County Cost Share invoice payments and to Homestead County Cost Share invoice payments received from local jurisdictions. ACH payments are also received from GAD for recaptured homeowner's tax credit payments and from District Court payments. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.

Revenue from Lockbox [REDACTED] - The monthly [REDACTED] lockbox account statement provides daily lockbox revenue processed, daily wires to [REDACTED], and specific chargeback information. The available R*STARS balance represents the total amount of undistributed personal property fees collected. Due to data transmission, this available balance will fluctuate as a result of timing issues. At the end of each month daily cash deposits are reconciled to the [REDACTED] statement. At the end of each month, daily cash deposits are reconciled to the [REDACTED] statement and to the R*STARS DAFRG510.

Exhibit 2 to April 1, 2019 Letter to Joint Chairmen

Status of Repeat Findings in OLA's February 22, 2018 Audit Report on the State Department of Assessments and Taxation (DAT)

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Real Property Assessments	
3. We recommend that DAT enhance procedures by requiring each local assessment office to <ul style="list-style-type: none"> a. establish initial accountability and control over all property-related documents manually received from local governments, including deeds and permits. 	Resolved
<ul style="list-style-type: none"> b. resolve building permit processing errors and ensure the permits are subsequently recorded- 	Resolved
<ul style="list-style-type: none"> c. ensure that building permit data, property tax exemption transactions, and real property appeal decisions are properly recorded in the Assessment and Administration Valuation System (AAVS) based on supervisory review of supporting documentation, and that these verifications are documented. 	Resolved
Homestead Property Tax Credit (HPTC)	
5. We recommend that DAT <ul style="list-style-type: none"> a. perform an analysis of personnel and resource funding requirements and develop a comprehensive compliance program to help ensure that HPTCs are only granted for eligible properties. 	Resolved
<ul style="list-style-type: none"> b. review reports of potentially ineligible accounts, including those noted in the finding, and take appropriate corrective action. 	Resolved
Homeowners' Tax Credit (HTC)	
6. We recommend that DAT <ul style="list-style-type: none"> a. perform timely audits of HTC applications. 	Not Resolved
<ul style="list-style-type: none"> d. ensure local jurisdictions submit monthly files of redeemed HTCs, review differences between the amounts of redeemed HTCs and those authorized by DAT, and use the files to verify the propriety of reimbursement requests. 	Not Resolved
Information Systems Security and Control	
7. We recommend that DAT <ul style="list-style-type: none"> a. log all critical database security and audit related events, regularly generate reports of these logged events, review these reports on a timely basis, document these reviews, and retain the documentation for future reference. 	Resolved

Exhibit 2 to April 1, 2019 Letter to Joint Chairmen

Prior Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Information Systems Security and Control 8. We recommend that DAT, in conjunction with the Department of Information Technology (DoIT), a. perform a documented review and assessment of DAT network security risks and identify how intrusion detection prevention systems (IDPS) coverage should be best applied to the DAT network to include IDPS coverage to all inbound untrusted traffic.	Resolved
Cash Receipts 10. We recommend that DAT b. perform independent and proper deposit verifications, including using the original record of checks received.	Not Resolved

Exhibit 3 to April 1, 2019 Letter to Joint Chairmen

OLA's Assessments Regarding Repeat Findings That Were Not Resolved

Prior Report Recommendation – Finding 6

We recommend that DAT

- a. perform timely audits of HTC applications (repeat), and**
- d. ensure local jurisdictions submit monthly files of redeemed HTCs, review differences between the amounts of redeemed HTCs and those authorized by DAT, and use the files to verify the propriety of reimbursement requests (repeat).**

Status: Not Resolved

Our review disclosed that although DAT made some progress in auditing the HTC applications, there was still a significant backlog. Specifically, at the time of our review, DAT had completed audits for the applications received from homeowners who were granted tax credits in 2012 and 2014, but audits of applications for tax credits granted in 2015 and 2016 were not completed. DAT management advised us that no audits were conducted of applications for tax credits granted in 2013 because many were duplicates of the 2012 applications and DAT did not believe it was an efficient use of resources.

For the monthly files of redeemed HTCs, our review of the files received by DAT for October 2018 disclosed that 6 of the 24 local jurisdictions failed to submit the monthly files. In addition, although DAT used the files received from 18 local jurisdictions to review differences between the amount of redeemed HTCs and those it had authorized, they did not use them to verify the propriety of the jurisdictions' reimbursement requests.

Prior Report Recommendation – Finding 10

We recommend that DAT

- b. perform independent and proper deposit verifications, including using the original record of checks received (repeat).**

Status: Not Resolved

Although verifications for lockbox and ACH collections, which are the source for the majority of personal property return filing fee collections, were being properly performed, the process for the verification of collections received at DAT headquarters was insufficient. Specifically, the independent employee performing the verification did not use the original record of cash and checks received as recommended.

