



**Department of Legislative Services
Office of Legislative Audits**

**State Department
of Assessments and Taxation
(DAT)**

Report Dated February 22, 2018



Report Overview

The report contained 10 findings, including 5 repeat findings from the preceding fiscal compliance report and 1 repeat finding from our performance report on the Homestead Property Tax Credits program, dated February 28, 2013.

Key Findings:

- **Real Property Assessments** - DAT did not ensure required supervisory reviews of real property assessments were performed and did not ensure data recorded in its automated real property system were complete and accurate.
 - **Personal Property Assessments** - DAT did not use available data to ensure all businesses registered with the State, did not review personal property assessment exemptions and penalty waivers, and did not pursue timely collection of filing penalties.
 - **Homestead Property and Homeowners' Tax Credits** - DAT did not have adequate procedures to timely verify the propriety of tax credits, including those it had identified as questionable.
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Real Property Assessments (Findings 2 & 3)

Finding 2

- Supervisory reviews of real property reassessments by office supervisors were not always performed and documented, as required, at two local offices we reviewed. For one local office, none of the required reviews of residential and commercial reassessments were performed in the calendar year we selected for review. For the other office, the required number of reviews were not performed or documented.

Finding 3

- DAT did not ensure real property data recorded in its automated system were complete and accurate. For example, 2 of the 10 building permits tested at one local office were not accurately recorded in the system, and certain permit processing errors at the other office were not resolved timely. DAT also did not document supervisory reviews of assessment appeals decisions recorded at both offices, and real property exemptions recorded at one office (Repeat).
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Personal Property Assessments (Finding 4)

- DAT did not use available data from the Comptroller of Maryland (such as records of entities receiving State payments and/or entities with active sales tax accounts) to identify unregistered businesses conducting business in the State and failing to file a personal property return.
 - DAT did not independently review and approve exemptions from personal property assessments that were granted by numerous DAT employees. At the time of our audit, approximately 54,800 entities were exempt.
 - DAT did not timely pursue the collection of personal property late filing penalties and did not refer unpaid penalties to the State's Central Collection Unit timely.
 - DAT employees reduced or waived penalties without any independent supervisory review and approval. DAT could not provide justifications for reducing / waiving 8 of 10 penalties tested totaling \$7,196.
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Homestead Property Tax Credits (Finding 5)

DAT did not effectively use automated reports to help identify improper Homestead Property Tax Credits (HPTC) for review and follow-up (Repeat). State law limits the increase in county and State taxable assessments on owner-occupied properties to a fixed percentage of the preceding year's assessment. Approximately 392,100 properties received HPTCs for the year beginning July 1, 2016.

- DAT did not ensure local offices reviewed and resolved items on weekly reports that identified differences between the Homestead Credit Application System and DAT's assessment system.
 - DAT did not review a pending report that identified accounts with HPTCs that were placed in a pending status and that may no longer be eligible.
 - DAT did not follow-up on results of certain income tax record matches that identified significant discrepancies potentially impacting HPTCs claimed. A January 2016 match identified 156,040 address discrepancies that DAT had not reviewed.
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Homeowners' Tax Credits (Finding 6)

DAT did not perform timely and comprehensive verification procedures to help ensure the accuracy of Homeowners' Tax Credits (HTC) awarded (Repeat). HTCs are awarded to homeowners with a household income up to \$60,000. During fiscal year 2016, 46,751 HTCs were awarded totaling \$58.4 million.

- DAT had not audited any HTC applications, including those it had identified as questionable, for calendar years 2012 through 2015.
- DAT did not require manually processed HTCs to be independently reviewed to ensure that only authorized HTCs were processed for payment.
- DAT did not ensure all jurisdictions submitted monthly electronic files of HTCs redeemed by homeowners, and did not use the files that were submitted to verify the propriety of the jurisdictions' related reimbursement requests.



Other Findings

Real Property Assessments – Finding 1

Physical exterior inspections were not performed for all properties as required by State Law. This finding was subsequently resolved by Senate Bill 10 during the 2018 legislative session, which changed the frequency and manner of such inspections.

Information Systems Security and Control - Findings 7-9

- DAT did not adequately log or monitor critical database and mainframe security events (Repeat).
- DAT did not have intrusion detection prevention systems enabled for the DAT network (Repeat) and numerous workstations were running an outdated and unsupported operating system.
- DAT did not ensure services provided by the Department of Information Technology were sufficient to secure the DAT network.

Cash Receipts – Finding 10

DAT did not have adequate controls over personal property filing fee collections (Repeat).



Conclusion

DAT should

- ensure local supervisors conduct and document required reviews of real property assessments;
 - establish appropriate procedures at local offices to ensure building permit data, assessment appeals decisions, and real property exemptions are properly recorded;
 - use available Comptroller records to identify businesses not registered to file a personal property return, perform supervisory reviews of exemptions, pursue collection of unpaid penalties, and review reduced or waived penalties;
 - review reports of potentially ineligible HTC accounts, and take appropriate corrective action;
 - perform timely audits of HTC applications, perform reviews of manually processed HTCs, ensure local jurisdictions submit monthly files of redeemed HTCs, and verify reimbursement requests; and
 - take the recommended actions to improve controls over information security and cash receipts.
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