

Audit Report

State Department of Assessments and Taxation

September 2024

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

September 27, 2024

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the State Department of Assessments and Taxation (DAT) for the period beginning March 25, 2019 and ending August 31, 2022. DAT is responsible for administering the State's real and personal property tax laws, including various programs that provide property tax credits to homeowners and renters, as well as for administering various functions applicable to corporations.

Our audit disclosed that DAT was not reviewing the results of routine data matches that were conducted to help identify potential changes in property ownership and improper homestead property tax credits (HPTC). In addition, matching procedures using independent records of rental properties had not been implemented by DAT to help identify rental properties with improper HPTCs. Our review of both the match results and certain rental records we obtained disclosed homeowners who were receiving improper HPTCs.

We also found that determinations of HPTC eligibility for certain properties remained in pending status, neither denied nor approved, for extended periods without timely investigation and resolution. In addition, DAT did not have formal procedures to inform local taxing authorities when it determined property owners were receiving an HPTC for an ineligible property so the taxing authorities could assess any taxes due.

Our audit also disclosed that DAT was several years behind in performing audits of homeowners' tax credits (HTCs). DAT also did not ensure that local jurisdictions recovered and remitted all HTCs from homeowners who had transferred their properties, and did not record or timely deposit the recovered

HTCs. DAT also did not take sufficient action to return \$786,000 in taxes due to homeowners because of adjustments to their HTCs.

In addition, DAT did not review information available from the Comptroller of Maryland, such as entities receiving payments from the State and/or entities with active sales tax accounts, to help identify businesses that failed to register with DAT and file personal property returns as required. DAT also did not obtain adequate documentation to verify the propriety of charges related to technology enterprise services received from the Department of Information Technology valued at \$7.7 million over a four year period.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted finding falls under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of the nine findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that DAT satisfactorily addressed six of those eight findings. The remaining two findings are repeated in this report.

DAT’s response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while DAT generally agrees with the recommendations in this report, we have identified certain instances in which statements in the response conflict with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included “auditor comments” within DAT’s response to explain our position. However, consistent with the requirements of State law, we have redacted the elements of DAT’s response related to the cybersecurity audit findings.

We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with DAT. Additionally, although DAT’s response indicated agreement, certain actions indicated by DAT may be insufficient to

comprehensively address all the audit issues. These responses will require further clarification, but we do not anticipate that these instances will require the Committee's attention to resolve. Finally, we have edited DAT's response to remove certain vendor names or products, as allowed by our policy.

We wish to acknowledge the cooperation extended to us during the audit by DAT and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities

The State Department of Assessments and Taxation (DAT) is responsible for administering the State's real and personal property tax laws and various functions applicable to corporations (for example, issuing corporate charters and collecting certain taxes, such as gross receipts tax). DAT also administers programs that provide property tax credits primarily to homeowners and renters who meet the related eligibility requirements (such as gross income limitations). DAT's headquarters is located in Baltimore City and assessment and taxation offices are located in each of the State's 24 local subdivisions.

According to the State's and DAT's accounting records, during fiscal year 2022, DAT's expenditures totaled approximately \$139.9 million (See Figure 1 on the following page) and revenue collected totaled \$324.1 million. DAT's records for tax year beginning July 1, 2022, identified the total assessable real property tax base subject to State tax rates to be valued at approximately \$846 billion, consisting of 2,274,872 individual properties.

Figure 1
DAT Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2022		
	Positions	Percent
Filled	503	88.1%
Frozen ¹	1	0.2%
Vacant	67	11.7%
Total	571	
Fiscal Year 2022 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$ 45,848,937	32.8%
Technical and Special Fees	572,968	0.4%
Operating Expenses	93,444,079	66.8%
Total	\$139,865,984	
Fiscal Year 2022 Funding Sources		
	Funding	Percent
General Fund	\$102,857,812	73.5%
Special Fund	37,008,172	26.5%
Total	\$139,865,984	

Source: State financial and personnel records

Real Property Reassessment Notices

State law requires DAT to reevaluate the assessed value of each real property at least once every three years. As part of this reassessment process, DAT is required to send a notice to the related property owners of any changes to the assessed value and provide an opportunity for owners to appeal the new assessment. Properties are divided into three “areas” within each jurisdiction to ensure each property is reassessed and a notice is issued once every three years. DAT contracts with a vendor to print and mail the notices using a preapproved template and data sent from DAT.

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Frozen positions were unauthorized to be filled according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions now are available to be filled.

DAT monitors this notification process by providing the notice layout to the vendor which is tested prior to the actual notices being created, communicating with the vendor throughout the entire process, performing on-site visits to the vendor once notices are being printed and packaged for mailing, and reviewing a sample of the printed notices. DAT also performs a reasonableness test by comparing the number of notices mailed per postage statements provided by the vendor to the number of notices that DAT knows should have been issued.

According to DAT's records, during calendar year 2023 it performed reassessments of approximately 767,000 properties. The related notices should have been issued by the end of 2023 (effective January 1, 2024). In February 2024, DAT disclosed to the Maryland General Assembly that DAT and the vendor identified certain notices that had been duplicated, and approximately 100,000 notices had not been issued by the statutory deadline of January 31, 2024. We were advised by DAT management that the errors resulted, at least in part due to DAT's requested changes to the preexisting notice template to provide more information to property owners. According to DAT, the changes were requested late in the process (during October 2023), which disrupted the vendor's longstanding printing and mailing processes.

The failure to issue notices by the statutory deadline is significant because it precludes any changes to the assessed values for another three years unless a qualifying event were to occur requiring an out-of-cycle assessment, such as substantially completed improvements to the property. DAT determined that the potential three-year loss in property tax revenues for the local jurisdictions totaled \$151.6 million for those 100,000 properties that did not receive a notice. To address these potential losses to the local jurisdictions, Chapter 384, Laws of Maryland 2024 was enacted effective April 25, 2024, temporarily extending the deadline for the issuance of notices until May 1, 2024.

Per DAT management, as of May 1, 2024, DAT had issued replacement notices for the 100,000 properties that were not issued notices prior to the original deadline. In response to a requirement in the April 2024 Joint Chairmen's Report, DAT prepared a report that described the circumstances resulting in the missing notices, including several specific factors that contributed to the error. In this report, DAT management advised the General Assembly that DAT had modified parts of its process for issuing the notices to increase controls over the process and reduce the risk of similar errors in the future. DAT's report is attached to our report as Exhibit 1.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated October 5, 2020. As disclosed in Figure 2, for the non-cybersecurity-related findings, we determined that DAT satisfactorily addressed six of those eight findings. The remaining two findings are repeated in this report.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The State Department of Assessments and Taxation (DAT) did not have adequate procedures to ensure all required physical property inspections were performed.	Not Repeated
Finding 2	DAT did not use available output reports to ensure that all real property assessment appeals recorded in its Assessment and Administration Valuation System were subject to independent review and approval as required.	Not Repeated
Finding 3	DAT did not ensure that all required personal property returns and filing fees were received, and that exemptions from filing a return and paying the fee were valid. In addition, DAT did not pursue penalties for the untimely submission of returns in a timely manner.	Repeated (Current Finding 7)
Finding 4	DAT did not perform timely audits of awarded Homeowners' Tax Credits (HTC) or verify the propriety of redeemed HTCs and reimbursement requests from local jurisdictions. In addition, DAT did not ensure local jurisdictions recovered and remitted HTCs from homeowners that transferred their properties.	Repeated (Current Finding 4)
Finding 5	DAT did not ensure HTCs were properly calculated. As a result, HTCs awarded to thousands of homeowners in certain jurisdictions were improperly reduced by at least \$4.4 million.	Not Repeated
Finding 6	DAT awarded paid administrative leave to a senior management employee over a five-month period at a cost of \$55,860 without any documentation. The administrative leave granted was also in excess of the 10-day limit on administrative leave allowed by State regulations.	Not Repeated
Finding 7	DAT did not have adequate controls to ensure that collections were properly accounted for and deposited timely.	Not Repeated
Finding 8	DAT did not perform an independent supervisory review of corporate charter transactions to ensure that the proper fees were charged and collected. Our review disclosed that expedited processing fees for 3,277 documents were not collected.	Not Repeated
Finding 9	DAT's procedures for logging and monitoring critical database and mainframe security events were not sufficient.	Status Redacted ²

² Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Homestead Property Tax Credits

Background

State law established the homestead property tax credit (HPTC) to help homeowners who have had large assessment increases on their principal residence. The law limits the increase in county and State taxable assessments on individual owner-occupied properties to a fixed percentage of the preceding year's taxable assessment, thereby limiting the potential increase in property taxes due from the homeowner. Every Maryland county and municipality is required to establish the limit on taxable assessment increases at 10 percent or less each year. State law also limits the taxable assessment increases to 10 percent or less each year for computing the State's portion of the tax.

According to State law, only owner-occupied residences are eligible for the HPTC, and a property owner may only receive the credit on one property. An owner generally must reside at the applicable property for at least six months of the year, including July 1 of the year for which the credit is received. When a property is transferred to a new owner as evidenced by a deed, the property would lose its HPTC eligibility until a valid application for the credit is filed by the new owner. The new owner pays property taxes based on the most recent phased-in assessed value of the property. If a new application is submitted and approved, the new owner would then begin to receive the benefit of assessment limits provided by the HPTC.

According to State Department of Assessments and Taxation (DAT) records, HPTCs were applied to approximately 405,000 properties in the State for the tax year starting July 1, 2022, reducing the taxable base by approximately \$726.4 million for State property taxes and by approximately \$22.1 billion for county property taxes.

Finding 1

DAT was not reviewing the results of certain data matches that identified potential changes in property ownership and improper HPTCs, and was not using independent records of rental properties to identify and investigate potentially improper credits. Our review of both the match results and certain rental property records disclosed property owners who were receiving improper credits.

Analysis

DAT was not reviewing the results of routine data matches received from the Motor Vehicle Administration (MVA), which were conducted to help identify potential changes in property ownership and improper HPTCs. In addition, similar matching procedures using independent records of rental properties had not been implemented by DAT to help identify potentially improper credits. Our review of both the MVA match results and certain independent records of rental properties we obtained disclosed homeowners who were receiving improper HPTCs.

Reviews of Driver's License Match Results Not Conducted

As of March 2023, MVA data match results used to help identify improper HPTCs had not been reviewed by DAT for any periods after March 2021, even though more current results were available. On a routine basis, DAT provides HPTC recipient data to the MVA for matching to driver's license data. MVA matches the HPTC data against its records and sends DAT a report of any changes to MVA records for the HPTC recipients. Such changes, for example a change in address, may signify a change in property ownership requiring deletion of the prior owner's HPTC and the need for an HPTC application from the new owner.

Our review of 30 properties from the September 2022 match results³ (which as noted had not yet been reviewed by DAT) indicating that at least one of the homeowners had surrendered their license to another state⁴, disclosed 28 properties receiving an improper HPTC because either the property was sold to a new owner or the property no longer served as the owner's principal residence. For example, our analysis of one of the 28 properties disclosed that the property was sold; however, the prior homeowner's HPTC eligibility was not removed. The current homeowner had not filed a new HPTC application and continued to benefit from the previous owner's HPTC without the property's eligibility status

³ The 30 property accounts selected received reductions in their 2023 taxable base totaling \$3.3 million.

⁴ We selected accounts that had a license surrendered prior to November 2017. DAT was unable to explain why certain accounts appeared on the September 2022 report and not on previous reports.

being properly adjusted. DAT was not aware of the sale and as a result, the new homeowner had received improper reductions of their property taxes totaling at least \$9,500 over a period of seven years.

Overall, the September 2022 match results identified 22,285 property accounts that were on record to receive an HPTC and where one of the related homeowners had surrendered their license to another state, was deceased, or had changed their address. These properties were on record to receive reductions in their tax year 2023 taxable base for the State and counties of \$41.4 million and \$1.2 billion, respectively, because of the HPTC. Further investigation would be required to determine if any of those reductions, in addition to those we noted, were improper.

No Procedure to Review Independent Records of Rental Properties

DAT had no procedure to routinely review available independent records of rental properties to help identify properties for which an improper HPTC was being received. For example, the Maryland Department of the Environment (MDE) maintains a record of registered rental properties, primarily constructed prior to 1978, to help monitor compliance with lead poisoning prevention laws. We obtained a copy of MDE's database for actively registered rental properties as of January 2023 and matched it to DAT's records of properties receiving an HPTC for the tax year starting July 1, 2022. The match identified 2,872 registered rental properties that were receiving an HPTC, which we estimated could result in a reduction of approximately \$436,000 in the applicable county and state property taxes paid, including \$431,000 in applicable county tax.⁵

Our test of 10 of these properties with material prior year HPTCs (specifically, a reduction in property tax base of at least \$80,000) disclosed that all 10 were no longer qualified for the HPTC since they no longer served as the property owner's principal residence. The property owners for these 10 properties received improper tax reductions for 1 to 11 years totaling \$91,000. DAT removed the HPTC for all 10 properties upon our inquiries. Independent rental property data may also be available from other State agencies, certain local jurisdictions and real estate listings of properties for rent.

⁵ If a portion of a rental property serves as the owner's principal residence, an HPTC may be received for the assessed value attributable to that portion of the property. Otherwise, a rental property is not eligible for an HPTC.

Recommendation 1

We recommend that DAT

- a. review MVA data match results on a timely basis, and implement procedures to routinely review independent records of rental properties to help identify and investigate potentially improper HPTCs; and**
- b. take corrective action for any improper credits identified, including those noted above.**

Finding 2

Determination of HPTC eligibility for numerous properties remained in pending status for extended periods without timely investigation and resolution, resulting in HPTCs being applied to potentially ineligible properties.

Analysis

Determinations of HPTC eligibility for certain properties remained in pending status on DAT's records, neither denied nor approved, for extended periods without timely investigation and resolution. Timely resolution of pending eligibility is critical since DAT's policy is to consider a property eligible for the HPTC while in pending status. Furthermore, if a property is determined to be ineligible for the HPTC and additional taxes are subsequently owed, State law limits the number of prior years for which taxes can be collected to seven years from the date the tax was due. According to DAT's records, as of July 2022, there were 5,450 property accounts that were in pending status for the HPTC, of which 1,564 had been pending for more than a year (including 680 property accounts that received an HPTC). The overall reduction in taxable base for these properties totaled \$25.8 million for tax year 2022.

Our review of 20 of these property accounts that had been in pending status for more than 5 years as of January 31, 2023, disclosed that in many cases DAT had previously made a determination, but had not updated its records and ensured the account was moved out of pending status. In this regard, one of the accounts reviewed had been denied eligibility, but it continued to receive an HPTC because DAT's property records still showed the account as pending.

Recommendation 2

We recommend that DAT

- a. ensure that supervisory personnel periodically perform documented reviews of properties in pending status for extended periods to verify the propriety of that status; and**

- b. **take steps to bring those properties to resolution and to correct any recordkeeping errors, including the 1,564 properties noted in this finding.**

Finding 3

DAT did not have formal procedures to notify local taxing authorities of ineligible HPTC recipients so that they could assess any property taxes due in accordance with State law.

Analysis

DAT did not have formal procedures for informing local taxing authorities, which are responsible for collecting both State and county taxes, whenever it determined that a property had been receiving an HPTC for which it was not eligible and that property taxes that would have otherwise been due should be assessed. As a result, local taxing authorities did not know to collect taxes due during periods of ineligibility as required by State law.

State law provides that if a property owner has been receiving an HPTC for which they are not eligible, the property owner is to be assessed all State, county, and municipal corporation property taxes that would have otherwise been due for each taxable year that the property owner did not qualify to receive the credit. This provision applies whether DAT initially failed to detect an invalid credit (as noted in Finding 1) or a property owner received an HPTC while their account was in pending status but eligibility was subsequently denied (as noted in Finding 2). As previously noted, State law limits the number of prior years for which taxes can be collected to seven years from the date the tax was due.

Recommendation 3

We recommend that DAT establish formal procedures for notifying local taxing authorities when it determines that a property has been receiving an HPTC for which it was not eligible. These procedures should ensure that the applicable local DAT offices are advised of all such determinations, that all notifications are documented and forwarded by either DAT headquarters or the applicable local DAT office, and that notifications include all information and data necessary to allow local taxing authorities to assess all property taxes otherwise due as required by law.

Homeowners' Tax Credits

Background

According to the State's records, during fiscal year 2022, DAT approved 38,870 homeowners' tax credits (HTC) totaling approximately \$57 million. HTCs are awarded to homeowners with a combined household income of up to \$60,000, allowing a credit against the homeowners' property tax bill when the property taxes exceed a fixed percentage of the household's gross income. To receive the HTC, homeowners must submit an application, along with supporting documentation, to DAT by October 1 of the fiscal year for which the HTC is being requested.⁶ For example, applications for fiscal year 2023 property taxes were due by October 1, 2022.

DAT headquarters staff process the HTC applications, determine the amount of each credit, and notify the local jurisdictions which issue the credits on tax bills or as refunds depending on when the applications were received. The State ultimately bears the cost of reduced tax revenue due to HTCs. Accordingly, to make local jurisdictions whole, State law requires them to submit reimbursement requests for redeemed HTCs to DAT, which then certifies to the Comptroller of Maryland that the requested reimbursement is due to the jurisdiction. Homeowners who receive an HTC and then transfer ownership of the property during the year of the award must return the HTC either in full or on a prorated basis.

Finding 4

DAT did not perform timely audits of HTC applications and did not ensure local jurisdictions recovered and remitted HTCs from homeowners that transferred their properties.

Analysis

DAT did not perform timely audits of HTC applications and did not ensure local jurisdictions recovered and remitted all HTCs from homeowners that transferred their properties.

- DAT did not conduct timely audits of questionable HTC applications as required by its policy. DAT generates reports that identify (a) discrepancies between income reported on the application and the applicant's State income tax return, and (b) significant fluctuations between income reported by the applicant in the current and previous years. However, as of November 2022,

⁶ Effective June 1, 2020, Chapter 507, Laws of Maryland 2020 extended the application deadline from September 1st to October 1st.

DAT had not audited applicants identified on the 2016 and 2017 income discrepancy reports, and had not generated reports for any subsequent years. DAT also had not audited applicants identified on the 2019 income fluctuation report and had not generated the reports for any subsequent years. These audits are critical for helping to ensure the propriety and accuracy of HTC's. The 2017 income discrepancy report and the 2019 income fluctuation report identified 2,396 and 5,365 accounts, respectively, that should have been subject to audits per DAT policy.

- DAT did not review available property transfer reports to ensure that any HTC's awarded to homeowners that subsequently transferred ownership of their property were recovered and remitted to DAT as required. Although DAT's policy required DAT employees to review these reports, DAT relied on the local jurisdictions to identify, recover, and remit any HTC's due. In addition, we determined that the transfer reports being generated were not complete. For example, we noted at least 12 jurisdictions that remitted payments for recovered HTC's totaling approximately \$306,000 for fiscal year 2022 even though the transfer reports for that year indicated that no HTC's needed to be recovered by those jurisdictions. For another jurisdiction the reports identified \$1,762 in HTC's to be recovered, but the actual amount recovered and remitted by that jurisdiction totaled approximately \$62,000.

The lack of timely audits has been commented upon in our four preceding audit reports dating back to 2010, and the lack of review of transfer reports was commented upon in our preceding audit report. In response to our preceding report, DAT agreed to perform timely audits and indicated that the audits of the 2016 and 2017 income discrepancy reports would be completed by April 2021. In addition, DAT indicated that it intended to review the transfer reports; however, no reviews were conducted.

Recommendation 4

We recommend that DAT

- a. perform timely audits of HTC applications (repeat),**
- b. review transfer reports to ensure that any HTC's due from homeowners who had transferred ownership of their property were recovered and remitted to DAT as required (repeat), and**
- c. take steps to ensure that the transfer reports include all transferred properties and corresponding HTC's to be recovered.**

Finding 5

HTCs recovered and remitted to DAT by local jurisdictions were not recorded when received or deposited in a timely manner.

Analysis

HTCs recovered and remitted to DAT by local jurisdictions were not recorded when received or deposited in a timely manner. In addition, DAT could not provide documentation that it had received and deposited recovered HTCs totaling \$62,000 reported by one local jurisdiction.

During fiscal years 2021 and 2022 local jurisdictions reported and remitted 235 checks totaling \$775,000 in recovered HTCs to DAT. Our review of the 62 deposits related to these funds identified 132 checks totaling \$419,000 that were deposited from 21 to 159 days following the date of issuance by the local jurisdiction, including 50 that exceeded 40 days. We were unable to readily determine the dates these checks were received by DAT because DAT did not record the checks upon receipt. In addition, our review of reports submitted to DAT by one local jurisdiction disclosed \$62,000 in HTCs recovered for fiscal year 2022, but did not include information about when those amounts were received and deposited.

The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over cash receipts, including initial recordation and the depositing of cash receipts within one working day.

Recommendation 5

We recommend that DAT

- a. ensure that all collections are recorded upon receipt and deposited in a timely manner, and**
- b. ensure that the aforementioned \$62,000 was received and deposited.**

Finding 6

DAT has not taken sufficient action to refund \$786,000 in HTCs due to certain homeowners for tax years 2017 to 2019.

Analysis

DAT has not taken sufficient action to refund \$786,000 due to certain homeowners for tax years 2017 to 2019. In our preceding audit report, we noted that HTCs awarded to thousands of homeowners in certain jurisdictions were improperly reduced by at least \$4.4 million in fiscal year 2019. We recommended that DAT consult with legal counsel on how to proceed regarding

any refunds due as a result of the HTC miscalculations. In response to our report, DAT initially disagreed with our finding and our recommendation that there was a need for any reimbursements to homeowners related to this issue.

Chapter 717, Laws of Maryland 2021, required DAT to determine whether certain homeowners were owed tax refunds because of required adjustments to how their HTCs were calculated for tax years 2017 to 2020. As a result, DAT made refund payments totaling \$7.9 million to 5,393 owners. However, as of October 2022, DAT still had not paid \$786,000 in refunds which it had determined during fiscal year 2022 was owed to 707 additional owners.

According to DAT, they did not issue the refunds because certain additional due diligence was required (such as locating the homeowner). We were also advised that these refunds were initially intended to be disclosed through DAT's website for potentially eligible claimants to search for outstanding refunds due, but this did not occur due to concerns with disclosing personally identifiable information.

We reviewed refunds totaling \$41,520 that had still not been made to 20 of the aforementioned 707 owners and noted that for 14 refunds, DAT had sufficient information to process the refunds. Specifically, based on our review it did not appear as if ownership of the related property had been transferred, and in 9 cases, the related owner had received an HTC for the same property for tax year 2022.

Recommendation 6

We recommend that DAT take the necessary steps to notify all remaining homeowners to which refunds are due, and to ensure that any required refunds are paid promptly.

Personal Property

Finding 7

DAT did not obtain available Comptroller of Maryland records to help identify potential businesses that failed to register with DAT and file personal property returns.

Analysis

DAT did not review information available from the Comptroller of Maryland, such as entities receiving payments from the State and entities with active sales tax accounts, to help identify businesses that failed to register with DAT and file personal property returns as required. Personal property returns are due to DAT by April 15 each year and must include a filing fee of \$300 (\$100 under limited

circumstances). DAT uses the returns to annually certify the assessed value of personal property (for example furniture, certain equipment, and inventory) owned by business entities, such as corporations, limited liability companies, and partnerships as prescribed by State law. Maryland's 24 local jurisdictions use the assessed values to calculate taxes due from the applicable entities.

A similar condition was commented upon in our two preceding audit reports dating back to February 2018. In response to our preceding report, DAT indicated that it had modified its data sharing agreement with the Comptroller to periodically receive the data. However, during our current audit DAT management advised us that it would no longer conduct the reviews because of difficulties in matching DAT records to the Comptroller's records and because previous results did not identify significant noncompliance. However, DAT was unable to provide documentation to support these assertions.

According to its records, DAT collected \$121.1 million in personal property filing fees during fiscal year 2022. In addition, as of June 30, 2022, DAT had processed 405,032 personal property returns for calendar year 2020, providing local jurisdictions with a personal property assessable tax base of \$13.4 billion.

Recommendation 7

We recommend that DAT

- a. use available Comptroller of Maryland records to identify and pursue entities that have not registered and filed a required personal property return (repeat); and**
- b. document any decision to not use those records and data and the related reasons, such as the results of a formal cost benefit analysis of their use.**

Disbursements

Finding 8

DAT did not verify the propriety of charges related to technology enterprise services received from the Department of Information Technology (DoIT) during fiscal years 2020 through 2023, which were valued at \$7.7 million.

Analysis

DAT did not obtain adequate documentation to verify the propriety of charges related to technology enterprise services received from DoIT during fiscal years 2020 through 2023, which were valued at \$7.7 million. In addition, DAT was unable to explain an increase of over 40 percent in these charges from \$1.7 million in fiscal year 2021 to \$2.5 million in fiscal year 2023. Furthermore, as

noted in our subsequent findings, certain enterprise services provided by DoIT were not sufficiently comprehensive raising questions about the propriety of amounts invoiced.

At the beginning of fiscal year 2020, DoIT transitioned to a cost allocation model for technology enterprise services provided to State agencies, including DAT. Under this model, a total budget for services to be provided is prepared by DoIT. DoIT then submits invoices to be paid in four equal quarterly payments based on that budget. However, DAT and DoIT did not execute a memorandum of understanding (MOU) indicating the specific services to be provided, and the invoices submitted to DAT lacked supporting documentation to substantiate the services provided and the related costs. DAT management advised us that there was no other breakdown of services and costs, and that they just paid the invoiced amounts.

In our two preceding audit reports on DoIT dated May 1, 2020 and March 29, 2024, we recommended that DoIT enter into MOUs with the State agencies that receive technology enterprise services. DoIT agreed with these recommendations and stated that its staff would work with agencies to execute MOUs. According to DAT management, the former Chief Information Officer for DAT had drafted and submitted an agreement to DoIT outlining each agency's roles and responsibilities; however, neither this agreement nor an alternative had been executed as of May 2023.

Recommendation 8

We recommend that DAT

- a. ensure that all charges invoiced by DoIT are proper;**
- b. execute an MOU with DoIT that specifies DoIT's responsibilities for providing technology enterprise services to DAT, including the individual services to be provided, the related costs, and required documentation to support amounts invoiced; and**
- c. determine the propriety of the amounts previously invoiced and recover any amounts determined to have been billed improperly.**

Information Systems Security and Control

We determined that the Information Systems Security and Control section, including Findings 9 and 10 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with DAT’s responses, have been redacted from this report copy.

Finding 9

Redacted cybersecurity-related finding.

Finding 10

Redacted cybersecurity-related finding.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the State Department of Assessments and Taxation (DAT) for the period beginning March 25, 2019 and ending August 31, 2022. The majority of our fieldwork, including the review of SDAT's significant areas of operations, was conducted from August 22, 2022 to May 12, 2023. However, certain significant concerns were identified during February 2024 when DAT disclosed that a large number of property owners were not issued assessment notices as required, resulting in additional fieldwork related to DAT's oversight of the printing and mailing of assessment notices and related corrective actions being conducted from February 21, 2024 to June 27, 2024. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DAT's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial and information systems related areas of operations based on assessments of significance and risk. The areas addressed by the audit included homeowners and homestead property tax credits, real property assessments, personal property assessments, cash receipts, and information systems security and control. Our audit also included various support services (such as purchasing, maintenance of accounting records and related fiscal functions) provided by DAT to the Property Tax Assessment Appeals Board, which is audited separately. We also determined the status of the nine findings contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of March 25, 2019 to August 31, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DAT's operations. Generally,

transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Assessment Administration and Valuation System, the Maryland Business Entity System, the Homeowners' Tax Credit System, and the Homestead Credit Application System for the purpose of testing certain areas, such as real property assessments, cash receipts, and tax credits. As part of our audit, we also obtained data from the Maryland Department of the Environment's Lead Rental Registry for the purposes of performing an electronic match against properties being claimed as principal residences to receive a homestead property tax credit. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DAT's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DAT, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DAT's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DAT that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgement, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to DAT and those parties responsible for acting on our recommendations in an unredacted audit report.

DAT's response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated

Code of Maryland, we will advise DAT regarding the results of our review of its response.

WES MOORE
Governor

ARUNA MILLER
Lt. Governor



DANIEL K. PHILLIPS
Interim Director

VACANT
Deputy Director

Report Due: July 1, 2024

The Honorable Guy Guzzone
Chair, Senate Budget and Taxation Committee
3 West Miller Senate Office Building
11 Bladen St.
Annapolis, MD 21401

The Honorable Ben Barnes
Chair, House Appropriations Committee
121 House Office Building
6 Bladen St.
Annapolis, MD 21401

**Re: 2024 Joint Chairmen's Report
(p. 52 – Assessment Mailing Error Report)**

Dear Chairman Guzzone and Barnes:

Per the 2024 *Joint Chairmen's Report* (JCR), the Department of Assessments and Taxation is required to submit a report on the 2023 reassessment notice mailing error, including details of the third party vendor contracted to print and mail the notices. Please find attached the Department's report detailing the error, including information on how the Department intends to remedy the issue moving forward.

This review will detail events leading up to and following the discovery that 100,009 reassessment notices had not been mailed out by January 31, 2024. Furthermore, the Department has requested the Department of Budget and Management to conduct an independent audit to ensure any remedy subsequently implemented will be based on recommendations from a neutral third party.

The Department of Assessments and Taxation respectfully requests the release of the \$500,000 general fund appropriation restricted per the 2024 JCR.

Very truly yours,

Daniel K. Phillips
Interim Director

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General Reassessment Notice Procedure

Per Tax - Property Article § 8-401, if there is any change in the value or classification of an assessed property, the Department is required to provide the property owner written notice of an assessed change. Except for the taxable year beginning July 1, 2024 and until June 30, 2025, failure to send a notice of any change in value or classification within 30 days of January 1 creates an irrebuttable presumption that the prior value of the property has not changed.

On November 1, 2023, Lisa F. McDonald, Chairman of the Preference Purchasing Pricing and Selection Committee notified the Department that they have “certified a fair market price of \$208,543.64 for printing and mailing services for the Maryland State Department of Assessments and Taxation located at 301 W. Preston Street, Baltimore, MD 21201 for a period of one (1) year, without optional renewal, beginning November 1, 2023.”

The Purchasing Pricing and Selection Committee noted that “SDAT has requested a 1-year contract term as they plan to have major changes to the Scope of Work in the coming year... This contract saw an increase of 41.8% annually... the quantity increased from 775,000 to 780,000.”

Maryland law grants specified preferred providers the right of first refusal on most Departmental procurements. Maryland Works is one such preferred provider, and the Department uses its subsidiary known as The League for People with Disabilities (League Industries or the League) for the printing and distribution of its triennial reassessment notices. Since 2018, the Department has had a three year base contract with two optional one year renewals. The following is a timeline of the Department's contracts with the League beginning November 1, 2018, which was a three year base agreement with two one-year renewal options.

- Year 1 - November 1, 2018 - October 31, 2019 - \$144,717.40
- Year 2 - November 1, 2019 - October 31 - 2020 - \$147,859.40
- Year 3 - November 1, 2020 - October 31, 2021 - \$151,158.80
- Renewal Year 1 - November 1, 2021 - October 31, 2022 - \$154,535.70
- Renewal Year 2 - November 1, 2022 - October 31, 2023 - \$157,915.00

For the most recent cycle, the Department held a one year contract from November 20, 2023 to November 13, 2024 for \$208,543.64, bringing the six year total to \$964,729.94. Included in the contract is a Scope of Work which details the notice design, the vendor's responsibility, and any applicable deadlines.

Before the most recent reassessment cycle, the Department sent out a reassessment notice like the one shown in the attached Sample 1.

To generate notices for each property account, the League developed and maintained custom software to merge the Department's reassessment information with standard form information. The software would receive data from SDAT including, but not limited to:

- The name of the property owner
- The property address

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

- Prior Market Value
- Proposed New Market Value
- A schedule of the phase-in for the proposed value over the subsequent three years

Each data point that changes from account to account is known as a “variable.” The League’s software uses dynamic scripting to populate each notice with the unique variables associated with the property account. Prior to the most recent reassessment cycle, the custom software used by the League would integrate 44 such variables into each notice which were unique to that particular property account. The notices were four pages in length, and one page on each notice required dynamic scripting. The other three included form language sent to all properties.

Prior to 2023, the custom software received the Department’s data, produced control totals, formatted the presort system output for assessment notices, and produced print output in batches of 5,000 notices for League Industries' printers. The printed output was then folded, inserted, prepared for the Post Office, and warehoused until the mailing day. Notices are categorized by zip code into “presorts” before being sent to USPS.

2024 Reassessment Notice Error

In 2023, the Department began to pursue a complete redesign of its reassessment notices. The new notices were intended to be more informative, legible for elderly users, and inform recipients of additional services provided by the Department. This new reassessment notice included 86 variables. The new notices sought to incorporate public feedback regarding agricultural properties. It was three pages long, including two pages which required dynamic scripting. The Department met with the League in September to discuss the changes necessary to have the new notices printed and ready for its 2024 mailing.

The League indicated that those changes would require significant programming to function, and that the original programmer of the custom software would not be available to make the changes required for a dramatically revised notice. Instead, the League proposed using MS Word Merge to fill and print the notices, but to do so by the year-end deadline, they would need a finalized version of the reassessment notices by October 1.

Some employees within the Department expressed concerns about the truncated timeline and advocated that the Department wait another year to ensure implementation is successful. The Department acknowledges that failure to heed these warnings, and its rush to use the new design for the 2024 notices, contributed to the technical errors that followed.

Timeline of reassessment notice error

9/22/2023

The League informed the Department that changes could be implemented for the 2024 notices, but that League Industries needed to start the changes immediately, including: layout of the revised notice, receipt of the new file layout, and possible envelope redesign. League Industries also requested two additional weeks from the receipt of the data files to the mailing date, moving from Thanksgiving week to the first week of November. The League stated that while it could move ahead with the Thanksgiving week timeline, that would remove any extra time to ensure proper mailing.

10/6/2023

Processing schedule sent from the Department to League Industries. The date to receive the data was still Thanksgiving week, effectively denying the extra time requested for the increased printing and modified processing. It was noted that the mailing date was moved to 12/28 to allow for two extra days.

Oct-2023

Specifications and layouts evolved for notice and envelope artwork revisions, data formatting, and notice variable-data layout and formatting.

11/21/2023

Live data file transferred to League Industries. This was one day later than scheduled.

11/22/2023

Live sample notices produced and sent to the Department via email. The samples had an error in that the 2nd line of address was not imported into the mailing system which affected the USPS presort and printed notices. The Department sent a notice of the address errors to the League. The postal processing was re-run and corrected, samples generated, and emailed. The revised samples were approved that day.

11/28/2023

Production notice generation and printing begins. The League observed that MS Word Merge was dramatically slower than anticipated. Examples of the processing rates observed:

- 1) Merge 1,000 records = 1-2 hours
- 2) Merge 5,000 records = 8 hours
- 3) Merge 10,000 records = 1.5 days

The League Reported that no solution seemed to be available to speed up the processing. It appears the issue was a combination of the large number of records and very large number of variable fields in the notices. The League determined that a solution to the problem was to run several copies of MS Word on the desktop computers at League Industries. To speed up the processing, instead of accessing the

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

presorted data on our network server, a copy of the data was placed on each computer's desktop. The Department was not aware of this issue at the time.

Nov & Dec 2023

While previously, all custom data went through one computer, the League separated presorts among five computers. Presorts placed on the computers, however, mistakenly did not include the 2nd address. This resulted in data being ordered differently than a network version that was being used, which did correctly include the second line of addresses. The operators of the computers were asked at each new Word Merge to declare what data they were merging; sometimes they answered the network version (correct presort #2) and sometimes the desktop version (incorrect presort #1). Though the two versions of presorts had the same number of envelopes in a tray, the fact that they were ordered differently caused some duplicate notices to be produced, and others not at all. It was not noticed that the notices being generated were from two different presorts at that time.

12/14/2023

Quality control walkthrough with the League. Each notice verified by SDAT staff had correct data in all fields. Due to MS Word Merge only producing a small amount of notices at a given time, the Department was provided a significantly smaller sample size to choose from.

12/27/2023

The League stated that it would not be able to meet the mailing deadline of 12/28/2023 and did not offer a solution at the time.

12/28/2023

The League informed the Department that only 625,000 notices would go out on time and the remainder would be late.

1/2/2024

The League informed SDAT that 100% of the mail had been sent.

1/3/2024

The first information about an error in the processing was an email from Supervisor Dan Phillips to the League on 01/03 about mail returned to the Charles County Assessment Office for insufficient addressing (missing an address line). The League was unsure of what could have caused the error at that time.

1/9/2024

The League stated that it was unable to definitively determine the reason for the duplicate notices, saying it was "perplexed."

League Industries was informed by the Department that several taxpayers had notified their local offices that they received duplicate notices and were wondering why. All the initial errors were created from a batch of 100,000 records Word Merged on a single computer. The operator immediately remembered switching back and forth between the desktop and network versions of the presort. At this point the League believed the error only occurred on that one computer immediately began determining which notices were generated from which presort.

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

1/16/2024

The League provided SDAT a list of 29,689 notices that were not mailed.

mid-January 2024

The Department continued to report duplicate and incomplete addressed notices, making it clear that the problem was more extensive than the 29,688 notices from the one computer. The League began a comparison of the notice PDFs printed to the two presorts in order to determine the source of each printed notice. At the same time, The Department placed an emergency order for additional envelopes. Due to the mailing being administered through MS Word Merge, not the custom software, the League was unable to easily track or provide an accounting of those addresses that had not been sent a new notice.

1/30/2024

The League assured the Department that any remaining notices that had not been sent would be by the end of the day. The League stated soon after that 100% of the notices had gone out before the 1/31 deadline.

2/2/2024

SDAT contacted the Office of Legislative Audits to request a thorough review regarding the distribution of Maryland Real Property reassessment notices in accordance with a contract with the League.

2/6/2024

The League notified the Department that there were some additional accounts that did not have notices printed and mailed, but it had not yet determined the number. This was the first indication that the Department received that notices had been sent out after January 31.

2/6/2024

SDAT alerted the Department of Budget and Management Audit Compliance Unit to the issue regarding the League, citing that it was not confident that the League has the correct information available.

2/7/2024

The League notified the Department of additional accounts that did not have notices printed, this was not the final number.

2/13/2024

The Department generated PDFs for replacement statements and transmitted them to the League. New, corrected notices were generated and printed within several days. All the materials, labor, and postage for the two make-up mailings (01/16 and 02/17) were paid for by League Industries.

Missed Mailings and Potential Losses of Revenue

As shown in Table 1 below, missed notices were distributed across counties and were generally proportionate to the total number of property accounts in each county. In total, 100,009 property accounts were not sent a reassessment notice by the January 30 deadline. If all property accounts reverted to their previous assessed value, the resulting revenue shortfall would be \$151,616,603 to counties, and \$18,432,477 to the State:

County	Number of Accounts	Total 3 Year Revenue Loss
Allegany	1,668	\$494,605
Anne Arundel	8,148	\$11,019,519
Baltimore City	4,268	\$7,299,526
Baltimore	13,849	\$15,966,198
Calvert	2,254	\$2,220,557
Caroline	156	\$63,528
Carroll	569	\$1,093,028
Cecil	12,461	\$12,843,137
Charles	3,583	\$4,685,131
Dorchester	616	\$362,111
Frederick	2,253	\$5,690,878
Garrett	804	\$1,433,290
Harford	7,311	\$7,548,091
Howard	2,735	\$5,727,189
Kent	231	\$179,450
Montgomery	9,851	\$32,238,044
Prince George's	16,622	\$25,528,514
Queen Anne's	1,124	\$1,141,110
St. Mary's	1,626	\$2,288,413
Somerset	726	\$306,987
Talbot	381	\$349,480

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

Washington	1,125	\$1,206,635
Wicomico	1,904	\$1,221,812
Worcester	5,744	\$10,709,370
Total Counties	100,009	\$151,616,603
State		\$18,432,477

Table 1: Property Accounts Which Had Not Received Notices by January 31, 2024

With the passage of House Bill 1516 / CH 384 - Real Property Assessments - Notice of Change in Value or Classification - Time Period, 2024 reassessment notices were required to be mailed out by May 1, 2024. Under Maryland law, all properties sent a reassessment notice between January 31, 2024 and May 1, 2024 would not have their assessed property value reverted to their previous assessments. The anticipated impact as a result of the legislation is that counties and the state will not experience any revenue shortfalls whatsoever. This is contingent on the Department having sent out all remaining reassessment notices by May 1 of this year. The Department is not aware of any reassessment notices that have not been sent out prior to the May 1 deadline, however, it has engaged the Department of Budget and Management to conduct an independent review to confirm that this is the case. As of this report, that review has not yet been completed.

Departmental Response

The Department has identified several points of failure which contributed to the reassessment mailing error:

- Failure to provide the vendor adequate notice of design change
- Failure to heed advice of staff
- Lack of communication from the League when mailing issue became apparent
- Lack of clarity in the scope of work between The League and The Department
- The Department was unable to verify the League's assurance that 100% of the notices had been mailed.
- The Department was unable to verify the League's statement that the remaining notices would be mailed by the end of the day.

Although the previous contract contained clauses regarding proofing and damages, SDAT was unable to expedite project completion due to contract compliance failures. The contract stipulated deadlines and quality controls which were not enforced. The agreement also required thorough proofing and approval processes to catch errors before final printing. Proofing for print errors was done on a limited number of test samples. The test samples reviewed did not display any data errors. Furthermore, the scope of work was not clearly outlined to delegate the appropriate roles and responsibilities between the Department and the League.

When considering the next contract, the Department intends to clarify the terms of its contract to strengthen the integrity of the process moving forward. The Department will delegate a project manager, specifically, to ensure future compliance and strict adherence to all contract terms, including clauses related to damages and proofing. This will enhance accountability and ensure that vendors and the Department are equally held to the highest standards. Previously, that role was not delegated to one specific staff member. Furthermore, in crafting the contract, the Department dealt specifically with the sales team and not operations management. While Director Higgs clearly did not heed the advice of Department staff, the vendor's operations management did not have any influence over the drafting of the previous contract.

Moving forward, negotiations will be held with vendor stakeholders directly involved in operations. This allows the terms to take on-the-ground processes into consideration from the moment an agreement is reached. The appointment of a dedicated project manager would ensure rigorous adherence to contract terms, enhance vendor management, and improve the overall quality and reliability of the Department's print jobs. Below are several recommendations by the Department for quality management clauses to be considered for its next contract:

- Require that the vendor create a unique identification number that is located on each notice in the order that it is printed. The vendor is then required to provide the Department with a file listing each Account and its Unique Number. In the past the vendor has used a number with batch and tray number for the notice print job, but this has not been provided to the Department.
- Create a Quality Control Checklist that is referenced each year to randomly pull various reassessment notices and review data variables prior to mailing. The checklist would include the many variables that impact the notice (i.e. Mailing Addresses, Values, Taxable Assessments, Credits, Exemptions, etc...).
- Request that the vendor print notices by County Code then Zip Code order. If batches are completed by their county code, the Department will be able to research and randomly pull notices for the different counties with a higher degree of ease and efficiency.
- Upon the renewal of this vendor's notice printing contract, adjust the contract's end date to be July 1, instead of Oct 1. This creates more time from our reassessment notice deadline if significant changes to the contract are made in the future

Additionally, to ensure that such errors are not repeated and to strengthen our process moving forward, the Department has enlisted the assistance of a third party (DBM) to conduct an independent review of the contractor relations. The Department believes that in conducting this audit we can receive actionable recommendations, improve performance metrics for future vendor management, and strengthen internal processes and controls to ensure higher standards of quality and reliability for Maryland property owners. The Department has several anticipated dates for benchmarking progress moving forward:

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

July 1

Deadline for the League to receive the notice design template for the 2025 mailing. The Department will be using a notice with one page of dynamic scripting. The League has already identified programmers who will be able to achieve the design on this timeline, well in advance of notice mailings.

September 1

Deadline for vendor completion of programming for pages that require dynamic scripting in the new notice template.

September 12

Final approval of contract by the Purchasing Pricing and Selection Committee and anticipated completion of contract with the vendor. The contract will incorporate recommendations by DBM along with some of the above recommended actions.

September 30

Quality control list to be completed and reviewed by the Department and the League.

Week of October 7

Deadline for the League to supply the Department with the page using dynamic scripting in electronic format for quality control.

November 8

Hard deadline for data test files to be delivered for a test print to verify the process.

Week of November 11

Department testing and quality control of printed assessment notices. The League prints notices for each county code and will provide SDAT the unique notice ID with account information for that notice run. Test samples will be provided to SDAT and reviewed for quality control.

November 13

Expiration of current contract with the League, and beginning of new contract with the League.

Week of November 18

The Department will send reassessment notice data to the League. The Department will conduct onsite inspections throughout the printing process.

December 30

Deadline to send out 2025 reassessment notices.

First week of January

Post-run quality control check. The Department will verify postage cost and paper counts per normal procedure. The Department will also implement a new control using sample notices to mail to each assessment office, verifying delivery time and quality of the notices.

Anticipated Legal Response

With the passage of House Bill 1516, there are no current legal ramifications for any reassessment notice that was mailed out following January 31, 2024, or prior to May 1, 2024. Failure to send a reassessment notice by May 1, 2024 would create an irrebuttable presumption that the relevant property's value has not changed since the previous assessment cycle, and thus that property's value would revert. Any property owner receiving a notice has 45 days from the date of the notice to appeal an assessment, including those that were mailed a notice after January 31. Challenges to a property's value are taken through a three step appeals process:

1. **Supervisor Appeal** - The Supervisor for the relevant County Assessment Office will review a challenge to the property's assessed value and may make an adjustment to the value if it appears that there was an error. If the Supervisor's determination is unacceptable to the owner, the owner may appeal the determination;
2. **Property Tax Assessment Appeals Board (PTAAB)** - The second phase of appeals are brought to an independent unit of government responsible solely for reviewing the Department's findings. PTAAB may or may not accept the Supervisor's decision. Depending on PTAAB's determination, either the property owner or the Department will raise the appeal to the third and final phase;
3. **Tax Court** - The third and final phase of appeal. The Department and the property owner both present their case for whether PTAAB's decision should be upheld or overturned. A judge will render a decision based on the facts.

Should a taxpayer refuse to pay their property tax to their local government, their account would first be marked as delinquent. Within one year of failure to pay property taxes, the county may enter the property into tax sale, at which point a third party would be able to purchase a lien on the home. If the property owner fails to redeem their property from tax sale, that property may enter tax sale foreclosure within one year of entering tax sale. Any further legal challenges to the State or its policies would be answered by the Maryland Attorney General.

Contribution of Staffing Shortages in the Real Property Division

The Department acknowledges that a lack of oversight contributed to the error, however, it does not believe that staffing shortages in the real property division had any impact - directly or indirectly - on this particular issue. The real property division is primarily responsible for assessing the value of all properties that reside in the State of Maryland. It is responsible for assessing, logging, and disseminating information based on its assessments. The division also responds to assessment appeals, and notifies local governments of its assessable base for the purposes of taxation.

Exhibit 1
DAT Response to April 2024 Joint Chairmen's Report

In this particular matter, the real property division had all information at its disposal and provided that information in a timely manner. No information provided by the division was missing or incorrect. It was in fact the real property division that discovered there was an issue with the notices in the first place. The missing notices of assessment were the result of an IT error spurred by a hastened process for a new notice design. There was no anticipated change to the data from the division that was required by the League, nor is there any indication that that data contributed to the error.

Where the Department has identified staffing shortages would be in its IT environment. DoIT's current project management structure does not provide project management staffing. SDAT has multiple major technology modernization projects in progress, working to transition off legacy mainframe systems and specialized platforms and onto modern, flexible, and scalable solutions. All SDAT IT staff (including all management positions) are performing multiple roles simultaneously and cannot take on additional project management responsibilities without offloading some of their technical duties. SDAT has one Project Management contractor; however, she can only cover one-third of the ongoing projects.

DAT Response to April 2024 Joint Chairmen's Report

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lt. Governor



MICHAEL HIGGS
Director

MARCUS ALZONA
Deputy Director

Dear Property Owner:

The enclosed notice informs you that the Maryland Department of Assessments and Taxation has determined a new estimated market value of your property after the latest reassessment. This value was developed using recent market information from your area and has been applied uniformly to all comparable properties. The estimated market value of both the land and buildings on your property can be found on page 3 of the notice.

Property assessment values are certified by the Department of Assessments and Taxation and are then converted into property tax bills by local governments. To compute your tax bill, local governments multiply the jurisdiction's property tax rate by the property's total assessed value. County and municipal governments set their tax rates at public hearings each spring and have the sole discretion to set tax rates. Property tax bills are issued in July/August of each year by local tax billing and collection offices.

Property values may rise or fall in the changing real estate markets. State law requires all property to be revalued every three years to ensure that all property owners pay only their fair share of local taxes. Since property taxes are primarily a local government revenue, our state assessors are able to provide an impartial, unbiased opinion.

The Department also administers two tax credits that may be available if you are a homeowner living in your primary residence. They are the Homeowners' and Homestead Tax Credits. Additional information about these credits can be found on page 2 of the notice.

The Department of Assessments and Taxation is committed to providing the best possible customer service to Maryland's property owners. You may quickly and easily obtain public data containing sales and assessment information for any property in Maryland by conducting a search on our Real Property Database. To visit the Real Property Database and to learn more about the assessment process, please visit our website at www.dat.maryland.gov.

Please feel free to contact your local assessment office for further information about your property's new estimated market value.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Higgs", is written over a light blue circular stamp.

Michael Higgs
Director

What is the Homestead Tax Credit?

To help reduce the impact of assessment increases for homeowners, state law has established the Homestead Property Tax Credit, which limits or caps the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to set a homestead cap that limits taxable assessment increases to 10% or less each year. The Homestead Tax Credit *applies only to the principal residence* of the property owner and is based on the total market value for the dwelling and associated land.

The Homestead Tax Credit does not limit the market value of the property as determined by the Department of Assessments and Taxation. Instead, it is a credit calculated on any assessment increase exceeding 10% (or the lower local cap enacted by the local governments) from one year to the next. Your taxable assessments, after subtracting the Homestead Tax Credit, are shown on page 3 of this notice, provided that local governments do not revise their homestead credit percentages by the March 2023 deadline.

Homestead Tax Credit Application Process

If the property is used as your principal residence, you are strongly encouraged to complete a one-time application for the Homestead Tax Credit because it can have a significant impact on your real estate taxes regardless of your property's value or your income level. To verify if you have already completed an application and been approved for this credit, please refer to the Homestead Application Status field located in the box on the upper right corner of page 3.

Homestead Tax Credit Applications must be filed by May 1 preceding the first tax year for which the credit is to be applied. We encourage you to file online; for more information or to file for the Homestead Tax Credit, please visit dat.maryland.gov/homestead or email sdat.homestead@maryland.gov. You may also file for the Homestead Tax Credit at your county's assessment office or at the Department of Assessments and Taxation's headquarters in Baltimore City.

What is the Homeowners' Tax Credit?

The Department of Assessments and Taxation also administers the Homeowners' Property Tax Credit, which allows credits against the homeowner's property tax bill if the property taxes exceed a fixed percentage of the person's gross income. In other words, it sets a limit on the amount of property taxes any homeowner must pay based upon his or her income. Before your eligibility according to income can be considered, you must meet these four basic requirements:

- You must own or have a legal interest in the property;
- The dwelling on which you are seeking the tax credit must be your principal residence where you live at least six months of the year, including July 1, unless you are a recent home purchaser or unless you are unable to do so because of your health or need of special care;
- Your net worth, not including the value of the property on which you are seeking the credit or any qualified retirement savings or Individual Retirement Accounts, must be less than \$200,000; and
- Your combined gross household income cannot exceed \$60,000.

Homeowners' Tax Credit Application Process (Applications not available until February 15, 2023)

If you meet the four requirements mentioned previously, you are strongly encouraged to complete an annual application for the Homeowners' Tax Credit because it can have a significant impact on your real estate taxes based on your income. Homeowners who file and qualify by April 15 will receive the credit directly on their tax bill. Persons who file later have until the October 1 deadline and will receive any credit due in the form of a revised tax bill. Applicants filing after April 15 are advised not to delay payment of the property tax bill until receipt of the credit if they wish to receive the discount for early payment offered in some jurisdictions. A refund check will be issued by the local government if the tax bill was paid before the tax credit was granted.

Applications can be submitted online at taxcredits.sdat.maryland.gov, and for more information about the Homeowners' Tax Credit you can visit dat.maryland.gov/homeowners or email sdat.homeowners@maryland.gov. You may also file for the Homeowners' Tax Credit at your county's assessment office or at the Department's headquarters in Baltimore City.

Verifying the Status of Your Homestead or Homeowners' Tax Credit

After you have submitted your tax credit application to the Department of Assessments and Taxation, you can determine the status of your eligibility for free by searching for your property's profile in the Real Property Database located at sdat.dat.maryland.gov/realproperty. Your property's application status will be displayed as approved, application received, denied, no application, or withdrawn at the bottom of the search results.

Searching for Comparable Sales

Homeowners may search for comparable sales by visiting sdat.dat.maryland.gov/realproperty. On this webpage, select the desired county and the property sales search method. Once those fields are completed, click the "Continue" button located on the right portion of the screen. Additional fields will appear that need to be completed to run your search. Once those fields are completed, click the "Next" button located on the right portion of the screen. Your results will be displayed on the screen.

Exhibit 1 - DAT Response to April 2024 Joint Chairmen's Report

State of Maryland
Department of Assessments and Taxation

Assessment Notice
(This Is Not a Tax Bill)

WASHINGTON CO ASSESSMENT OFC
3 PUBLIC SQUARE
HAGERSTOWN MD 21740-5510

(301) 791-3050
SDAT.WASH@MARYLAND.GOV

1
136

ACCT#

NOTICE #	NOTICE DATE	TAX YEAR BEGINNING
	12/29/2022	07/01/2023

DIST	MAP	PARCEL	SEC	BLOCK	LOT	USE	SUBD

PROPERTY LOCATION	PRINCIPAL RESIDENCE
	YES

CONTROL #:	HOMESTEAD APPLICATION APPROVAL - YES

BOX 1 REFLECTS THE 5% ASSESSMENT CAP
ESTABLISHED BY WASHINGTON CO.



If this property is your principal residence and the Homestead Application Status is NOT shown as Approved or Pending in the box above, you are encouraged to email sdatt.homestead@maryland.gov to apply.

The following taxable assessments will be applied to produce your actual July 1, 2023 tax bill *provided your Homestead Credit status does not change or local governments do not revise their Homestead Credit percentages by the March 2023 deadline.*

***Taxable
Assessments
for July 1, 2023***

1. \$	180,810
County or Balt. City Taxable Assessment	

2. \$	189,420
State Taxable Assessment	

3. \$	NOT APPLICABLE
Municipal Taxable Assessment	

State law requires that all real property be revalued at least every three years. The property described above has been reviewed to determine the new market value effective January 1, 2023. The new market value is based upon market data available prior to this date. The old total market value of your property was:

4. \$	172,200
-------	---------

This property has been reappraised as of Jan. 1, 2023. This is the current value of your property; it is not a projection of future value.

***New Market Value
as of Jan 1, 2023***

5. \$	55,600
Land	

6. \$	177,400
Buildings	

7. \$	233,000
TOTAL	

State law provides that any increase in the new market value be phased in over the next three tax years in equal amounts. If the value decreased, this reduced assessment will be in effect for the next three years as shown in the boxes below (before applicable credits and exemptions).

8. \$	192,467
2023	

9. \$	212,733
2024	

10. \$	233,000
2025	

***Phased-In Market
Values /
Assessments***

***Your Appeal
Rights***

If you feel that your property's Total New Market Value of \$ 233,000 is incorrect, you may file an appeal. An explanation of the appeal process and instructions on how to file your appeal are located on page 4.

An appeal must be filed or postmarked by 02/13/2023

ATTENTION: If the mailing address at right is incorrect, please print the correct address below and return to the Assessment Office.



Exhibit 1 - DAT Response to April 2024 Joint Chairmen's Report
APPEAL PROCEDURE

You have the right to appeal this notice of assessment. A three-step appeal process is available to protect the property owner from an incorrect assessment. The first level appeal is with the local assessment office. The second and third level appeals are with the Property Tax Assessment Appeal Boards and the Maryland Tax Court respectively. These are independent agencies that are completely separate from the Department of Assessments and Taxation. At each level in the appeal process you have the opportunity to present evidence showing why the Total New Market Value (page 3, box 7) is incorrect.

To appeal your notice of assessment, you can appeal online at assessmentappeals.dat.maryland.gov or complete and sign this appeal form and **return it to the local assessment office shown on page 3** of this notice. An appeal must be filed within 45 days from the date of this notice. When filing an appeal, you have three options: (1) submit an appeal in writing; (2) have a telephone hearing; or (3) have a video hearing with an assessor. Please indicate with a check mark the one option you have selected. Expedited service will be given to written appeals (Option #1). With Options 2 and 3 you have the right to postpone your hearing one time.

SIGNATURE	DATE
PRINT NAME	DAYTIME TELEPHONE #
EMAIL ADDRESS	

☐ **Option #1 Written Appeal :** If additional space is needed, attach paperwork to the appeal form. I am appealing the TOTAL NEW MARKET VALUE because:

NOTE: Written appeals are reviewed based on all available information and a final notice is sent.

☐ **Option #2 Telephone Hearing:** You will be notified of a date and time to call the assessment office.

☐ **Option #3 Video Hearing:** You will be notified of a date and time to contact the assessment office. Google Meet is the only web conferencing service supported on our network. **An email address must be provided above.**

If you are filing an appeal, a copy of your worksheet and a sales listing will be sent to you. You may also obtain copies of the worksheets for other comparable properties. A fee of \$1.00 for each comparable worksheet must be included with your request, with the check made payable to the State Department of Assessments and Taxation. Please use the space provided below to identify the comparable properties. Attach an additional sheet of paper if more space is needed.

Street Address of Comparable Property or Lot, Block and Parcel Number	Owner of Comparable (If known)

If you are not filing an appeal, you may still obtain a copy of your worksheet and sales listing. Please check the appropriate box or boxes below and return this form to your local assessment office at the address shown on page 3.

☐ Sales Listing

☐ Property Worksheet

If you wish to receive your worksheets, sales listing, and comparable worksheets by email, please provide an email address above.

Please make a copy of the front and back of this notice and retain for your records. Additional information about assessments, including the Property Owner's Bill of Rights, can be found on our website at www.dat.maryland.gov.

DAT Response to April 2024 Joint Chairmen's Report



Wes Moore | Governor
Aruna Miller | Lt. Governor
Michael Higgs | Director
Marcus Alzona | Deputy Director

NOTICE OF ASSESSMENT

THIS IS NOT A TAX BILL.
No payment due at this time.

ANNE ARUNDEL COUNTY ASSESSMENT OFFICE
45 CALVERT ST, 3RD FLOOR
ANNAPOLIS, MD 21401-1952



NOTICE DATE: 12/28/2023 TAX YEAR BEGINNING 07/01/2024

OWNER

PROPERTY LOCATION

DIST: MAP: PARCEL SEC: BLOCK: LOT:

TOTAL NEW MARKET VALUE	2024	\$458,200
TOTAL PRIOR VALUE FROM	2021	\$318,700

Owner occupied and the principal residence of the owner:	YES
Your state property tax credit or exemption status for this property:	HOMESTEAD APPROVED AS OF 2023
Your prior year, income-based annual state property tax credit status for this property:	N/A

NOTICE OF ASSESSMENT

Assessment Date	1/1/2021	1/1/2024	Change
Land Market Value	\$201,700	\$260,500	+\$58,800
Buildings Value	\$117,000	\$197,700	+\$80,700
Accessory Structures Value	\$0	\$0	\$0
Total Market Value	\$318,700	\$458,200	+\$139,500

ASSESSMENT PHASE-IN

Any increase in the new market value will be phased in over the next three years.

\$365,200	\$411,700	\$458,200
2024	2025	2026

TAXABLE PORTION OF YOUR ASSESSMENT

\$350,570	\$325,074	\$0
State Taxable Assessment	County / Balt. City Taxable Assessment	Municipal Taxable Assessment

If your homestead status is approved or pending, the taxable assessment shown above reflects any applicable homestead assessment cap established by the taxing jurisdiction. These amounts will be applied to your actual July 1, 2024 tax bill unless your local government revises its Homestead Credit percentages by March 1, 2024 or your Homestead Credit status changes.

Your tax bill is made up of the State Tax Rate and County/City Tax Rate. For properties that are in a municipality, an additional tax rate may apply. These amounts reflect only a portion of your taxable assessments that will impact your bill.

DAT Response to April 2024 Joint Chairmen's Report

HOW IS MY PROPERTY VALUE CALCULATED?	
The LAND VALUE of your property:	\$260,500
The location of the land is a major factor in determining its value. For example, land located near the water is generally more valuable than land located inland. Likewise, land located near an urban center is usually more valuable than land located miles away.	
Included in the above land value is the Preferential Land Assessment Value of \$0	
Certain types of land will receive a Preferential Land Assessment Value because they are valued by Use rather than Market Value.	
For example: Agricultural Land is valued for Agricultural Use and not Market Value.	
The value of main BUILDING structures on your property:	\$197,700
These include dwellings or commercial buildings that add value to the property.	
The value of any ACCESSORY structures on your property:	\$0
These include structures such as detached garages, barns, pools, and sheds that add value to the property.	
The total of the items above determines the NEW MARKET VALUE :	\$458,200
This is the value that the Department thinks your property would sell for in an open market.	

IF YOU DISAGREE WITH THE PROPOSED PROPERTY VALUES: You have the right to appeal this notice of assessment. File your appeal at assessmentappeals.dat.maryland.gov by 2/12/2024. Notice Number: 923772 Control Number 1270	
Do you want to file a paper appeal? Print one from the above URL or contact your local office to request a form. Your appeal must be filed or postmarked by 2/12/2024.	When you file your appeal, you will be prompted to indicate how you want to proceed with your assessment hearing. Your hearing options: Written, Telephone, Virtual Meeting, or In-Person Meeting

YOUR LOCAL SDAT OFFICE ANNE ARUNDEL COUNTY 45 CALVERT ST, 3RD FLOOR ANNAPOLIS, MD 21401-1952 (410)974-5709 SDAT.AA@MARYLAND.GOV	YOUR COUNTY FINANCE OFFICE ANNE ARUNDEL COUNTY OFFICE OF FINANCE 44 CALVERT STREET, ROOM 110 P.O. BOX 2700 ANNAPOLIS, MD 21404 (410)222-1736 REALPROPERTY@AACOUNTY.ORG	KEY DATES: February 12, 2024: Last day to appeal the market value of your property. Your appeal must be filed online or postmarked by this date. April 15, 2024: Last day to apply for the income-based Homeowners' tax credit so that the credit will appear on your tax bill. If you do not apply by this date, you must pay your full bill and get a refund if you are approved. To apply: taxcredits.sdat.maryland.gov July 1, 2024: The tax year begins and bills are sent out after this date by your county finance office or Baltimore City.
• Determines the value of your property • Calculates Statewide Property Tax Credits • Does <u>not</u> collect any money • Administers initial appeal of a property's assessed value	• Determines the amount of taxes you owe based on value • Calculates Local Property Tax Credits • Sends out your tax bill • Collects tax payments	

DAT Response to April 2024 Joint Chairmen's Report

OFFICE OF THE TAX SALE OMBUDSMAN

Need help with your delinquent property taxes?

(410) 767-4994

(833) 732-8411 (Toll-free)

Email: sdat.taxsale@maryland.gov**YOUR BILL:**

SDAT does not issue property tax bills nor collect tax payments.

You will get a property tax bill from your County's finance office or Baltimore City.

Principal residence properties will receive two tax bills annually.

Non-principal residence properties will receive one tax bill annually.

To update your: **mailing address, change your principal residence determination, or request a worksheet about your property**, you must send a written request to your local SDAT office.

Your valuation records are available as provided by § 14–201 of the Tax-Property Article.

The Property Owner's Bill of Rights can be found at dat.maryland.gov/realproperty/Pages/Bill-of-Rights.aspx

If an assessment has increased, the total amount of property tax owed by the property owner may also increase even if the property tax rate has not increased.

An improvement to a building required for the health or medical condition of the resident of the building may not be assessed for tax purposes. The exemption under this section may not exceed 10% of the total assessment of the real property on which the building is located.

Contact your local SDAT office for more information.

PROPERTY TAX CREDITS:**Local Tax Credits:**

The majority of property tax credits are issued by your county government or Baltimore City. Credits may include Senior Tax Credits. Please reach out to your county government or Baltimore City for additional details.

Homeowners Tax Credit:

If your gross household income is \$60,000 or less, apply at taxcredits.sdat.maryland.gov

Homestead Tax Credit:

You are eligible at your principal residence. Apply at taxcredits.sdat.maryland.gov

100% Disabled Veteran OR**Surviving Spouse of a 100% Disabled Veteran:**

You are exempt from all property taxes. This does not include county fees as determined by your county finance office. Apply via your local SDAT office.

Disabled Veteran currently on Active Duty:

You are exempt from all property taxes. This does not include county fees as determined by your county finance office. Apply via your local SDAT office.

Surviving Spouse of Active Duty Military Personnel who died in the line of duty:

You are exempt from all property taxes. This does not include county fees as determined by your county finance office. Apply via your local SDAT office.

Blind Person OR**Surviving Spouse of a Blind Person:**

You are exempt from \$15,000 of the property's assessed value. Apply via your local SDAT office.

APPENDIX



September 17, 2024

Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
351 West Camden Street, Suite 400
Baltimore, MD 21291

Re: OLA Audit of Maryland State Department of Assessments and Taxation

Dear Mr. Tanen:

The State Department of Assessments and Taxation (SDAT) has received the fiscal compliance audit submitted by the Department of Legislative Services, Office of Legislative Audits, for the period beginning March 25, 2019 and ending August 31, 2022.

SDAT would like to extend sincere appreciation for the thorough and professional work carried out during this recent audit. Please find enclosed our formal response, which addresses the observations and recommendations outlined in the audit report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dan Phillips", with a stylized flourish at the end.

Dan Phillips

Director, State Department of Assessments and Taxation

cc: Robert Yeager, Deputy Director
Kanchana Wijeratne, Compliance Director

State Department of Assessments and Taxation

Agency Response Form

Homestead Property Tax Credits (HPTC)

Finding 1

DAT was not reviewing the results of certain data matches that identified potential changes in property ownership and improper HPTCs and was not using independent records of rental properties to identify and investigate potentially improper credits. Our review of both the match results and certain rental property records disclosed property owners who were receiving improper credits.

We recommend that DAT

- a. review MVA data match results on a timely basis and implement procedures to routinely review independent records of rental properties to help identify and investigate potentially improper HPTCs; and
- b. take corrective action for any improper credits identified, including those noted above.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	The MVA data match reviewed by the auditors can be separated into three sub-categories: address change, surrendered, or deceased. This audit gives a report of any person who has an approved Homestead application on file that has an owner or applicant pass away, change address, or surrender their license to another state. Prior to November 2023, MVA data matches were audited manually by a three-person Homestead audit team. The MVA audit received from the Annapolis Data Center (ADC) mainframe would match the address reported on a Homestead application with the MVA data reflecting new address changes. This method triggered many redundancies and duplicate matches simply because it would report matches of new owners who were updating their license to reflect the new property address for which a Homestead application had been submitted, thereby creating between 10,000 to 15,000 duplicate accounts requiring review by three personnel on a monthly basis. DAT does not deny OLA's review of 30 properties matched in September 2022, yielding 28 MVA matched results based on address changes. However, these changes of address simply reflect a new homeowner updating their license in accordance with the new property address listed on their Homestead application, Currently, when a property is purchased, the Homestead Tax Credit application is submitted at closing. During settlement, new property

State Department of Assessments and Taxation

Agency Response Form

	owners are required to answer whether the property is owner-occupied or not. This status is input into the Homestead system. Real Property assessors also routinely update this status based on their three-year cyclical field reviews. The only mechanism by which DAT reviews properties for rental use is by matching those currently receiving the Homestead Tax Credit to those in the Rental Tax Credit Application Database. Outside of that, Homestead Tax Credit auditors have no knowledge of properties being used for rental purposes unless they are notified by the local assessment offices. If the owner reports that their property is rented, the local Real Property assessment office is notified, and the occupancy code is changed. Subsequently, the tax credit application is denied. The review and audit of Homestead applicant data is a manual process currently undergoing refinement with the implementation of a cloud-based application system, aiming to enhance efficiency and accuracy.
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Auditor's Comment: DAT's response states that the 28 items noted in the finding were a change of address to simply reflect a new homeowner updating their license in accordance with the new property address listed on their Homestead application. As stated in the finding we reviewed 30 properties from the September 2022 match indicating that at least one of the homeowners had surrendered their license to another state, and noted 28 properties receiving an improper Homestead property tax credit because either the property was sold to a new owner or no longer served as the owner's principal residence, for at least a period of time. As such the change in address has significant implications on the propriety of the credit and we continue to believe that such changes should be reviewed to ensure the individual is still qualified.

Recommendation 1a	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	DAT has begun to take corrective action for any improper credits identified, including those identified by the OLA's review. As of November 2023, the new MVA audit that uses driver's license data is being conducted via the tax credits application cloud-based platform. The most recent audit completed was for the month of January 2024. This process requires the tax credit application developers to complete additional filtering to account for duplicate results. Once complete, the MVA audit will automatically be able to identify properties that are no longer eligible for the tax credit monthly.		

State Department of Assessments and Taxation

Agency Response Form

	The Tax Credits Program Manager will work with its vendor to create a separate audit where properties receiving a Homestead Tax Credit will be run against data received from the Maryland Department of Environment's Lead Rental Registry. This audit will be reviewed monthly by the audit team to update the eligibility code of properties built before 1978 who have registered for a Lead Free inspection certification and continue to renew annually under the same owner. The eligibility code of these properties will be changed and the local assessment offices will be notified so the owner-occupancy code is updated to reflect the change documented. Local finance offices and treasurers will then be notified so any improper credits can be collected. Additionally, DAT leadership will update the 2025 Homestead Application to include wording instructing property owners to notify DAT when there has been a change in eligibility and/or properties are no longer used as a principal residence.		
Recommendation 1b	Agree	Estimated Completion Date:	March 2025
Please provide details of corrective action or explain disagreement.	A review of the ten properties noted in this finding was completed on 03/21/2023. Property accounts were investigated to assess their date of eligibility and the years in which a registration with the Lead Rental Registry was completed. Of the ten reviewed, seven of the properties had their eligibility status removed once it was confirmed that the property was a rental. Two of the accounts were moved to an archive database as further investigation revealed that the property had been transferred. The Homestead Tax Credit application was removed from the active/current Homestead database which removed the Homestead eligibility status and date in the Real Property database. For these accounts, the local treasurer was notified so improper credits could be collected. One of the accounts was approved for the Homestead Tax Credit after a valid application was submitted under new owners. DAT will also assess the system's ability to run a match of Lead Free Registry addresses against properties currently receiving a Homestead Tax Credit for principal residence. The MVA matches and the MDE matches identified by OLA will be reviewed by the Homestead Tax Credit Audit Team. Once identified, the Homestead Tax Credits application will be removed and local finance offices will be notified so that improper credits can be recaptured.		

State Department of Assessments and Taxation

Agency Response Form

Finding 2

Determination of HPTC eligibility for numerous properties remained in pending status for extended periods without timely investigation and resolution, resulting in HPTCs being applied to potentially ineligible properties.

We recommend that DAT

- a. ensure that supervisory personnel periodically perform documented reviews of properties in pending status for extended periods to verify the propriety of that status; and**
- b. take steps to bring those properties to resolution and to correct any recordkeeping errors, including the 1,564 properties noted in this finding.**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	DAT agrees with this finding. In the previous application system, if an owner were to make any changes to an existing deed such as adding a co-owner, the system would automatically calculate to show the number of days pending from the original filing. This would cause a property to incorrectly appear as if it were in pending status from the original date of application. The Department employs the use of a Computer Assisted Mass Appraisal (CAMA) system, known as AAVS, to record information from a deed. This is managed by the Real Property Unit of DAT. To determine eligibility, a program extracts that data from AAVS and sends it to the application system, a program used to house Tax Credits application information and managed by DAT's Office of Information Technology (OIT). A data match of any newly recorded sales would trigger a Homestead application to be sent to the new owner. This, in turn, would reset the application code to reflect there is "No Application on File." Once Real Property receives a deed, the data is captured by AAVS. Previously, AAVS recorded the Date of Sale (which reflected the date the deed was signed by all parties), and the Recorded Date (which reflected the date the deed was filed at the local land records office). In 2021, Maryland law ruled that only the Recorded Date was to be used in AAVS. Following that change, the Date of Sale Field was removed from the AAVS database. This change was not accurately captured in the

State Department of Assessments and Taxation

Agency Response Form

	system information transfer and resulted in accounts incorrectly showing a status of No Application on File. As of July 2023, these data fields have been extracted correctly and all changes made in AAVS are uploaded correctly into the application system. These changes in the application program are then updated and sent back to AAVS so that the Application on File and Tax Credit status are now accurate.		
Recommendation 2a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	The Department agrees that a control needs to be put in place to periodically review properties, however DAT <i>has</i> enhanced its process of timely application review. The Homestead Tax Credits data cloud-based application, auto-populates the oldest applications received first (then they are prioritized and processed). As of April 2024, once an application is processed, any response or requests for further documentation or correspondence will automatically put the application into a denial status within 90 days. A Homestead supervisor reviews two reports monthly. The first report created shows ‘Records Pending 90+ Days.’ The second is a report of legacy applications from January 2018 to December 2022 with a pending application. This ensures that properties in pending status are processed in a timely manner and do not improperly reflect a pending status for extended periods of time. Annually, the AAVS supervisory personnel will run a report that matches the Homestead eligibility status to that of the properties in the cloud-based tax credits application system to verify and resolve any interface issues.		
Recommendation 2b	Agree	Estimated Completion Date:	February 2025
Please provide details of corrective action or explain disagreement.	The AAVS Supervisor has since brought those aforementioned properties to resolution and the record keeping errors have been resolved. Currently, a pending status in AAVS dictates that an application has been received but has not been processed, or that further documentation has been requested. The date reflects when an application has been approved or denied. As of April 2024, the pending status date is not captured in the AAVS system. The Homestead Tax Credit audit team is requesting new applications to be submitted for the 1,564 accounts that were identified in this finding and removing eligibility if a response has not been received.		

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Finding 3

DAT did not have formal procedures to notify local taxing authorities of ineligible HPTC recipients so that they could assess any property taxes due in accordance with State law.

We recommend that DAT establish formal procedures for notifying local taxing authorities when it determines that a property has been receiving an HPTC for which it was not eligible. These procedures should ensure that the applicable local DAT offices are advised of all such determinations, that all notifications are documented and forwarded by either DAT headquarters or the applicable local DAT office, and that notifications include all information and data necessary to allow local taxing authorities to assess all property taxes otherwise due as required by law.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	DAT agrees with these findings and recommendations.		
Recommendation 3	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	Since the on-premises OLA visit in 2023, the Homestead audit supervisor has begun recapturing credits for these properties. A policy was created to inform local taxing authorities of their responsibility to collect taxes due. The Homestead Tax Credit audit team has implemented the formal procedure as of April 2024. Once a property's Homestead Tax Credit Application has been denied or it has been identified in an audit, the property's eligibility status is updated. On a monthly basis, communication is sent to the local assessment offices requesting the recapture of the improper Homestead Tax Credits for those identified properties. This communication includes the property account number along with the specific tax year(s) for which the recapture is needed. This information is forwarded by the local county assessment office to the local county finance office. A response is provided to the local county assessment office once the recapture has been completed. The Homestead Audit Supervisor maintains a spreadsheet log of all emails sent to the local county assessment offices in a recapture folder to document the requests for recapture of the Homestead Tax Credits.		

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Homeowners' Tax Credits (HTC)

Finding 4

DAT did not perform timely audits of HTC applications and did not ensure local jurisdictions recovered and remitted HTCs from homeowners that transferred their properties.

We recommend that DAT

- a. perform timely audits of HTC applications (repeat),
- b. review transfer reports to ensure that any HTCs due from homeowners who had transferred ownership of their property were recovered and remitted to DAT as required (repeat), and
- c. take steps to ensure that the transfer reports include all transferred properties and corresponding HTCs to be recovered.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The Department agrees with this finding. The Tax Credits department has dealt with the challenge of maintaining a consistent work force to audit Homeowner's Tax Credits. This coupled with the manual nature of the income discrepancy and income fluctuation audit contributed to a backlog that has kept the unit from completing the audits in a timely manner.		
Recommendation 4a	Agree	Estimated Completion Date:	June 2025
Please provide details of corrective action or explain disagreement.	The Tax Credits program manager has trained an audit staff team to address the audit backlog. The 2016 income discrepancy audit that reviews based on Federally Adjusted Gross Income (FAGI) data has been completed as of December 2023. The 2017 income discrepancy (FAGI) audit has been completed as of August 2024. DAT has utilized the new application system to process applications. Effective February 2024, in the new tax credits application platform, the income fluctuation audit will be an automated front-end audit. Utilizing this enhanced system, trained auditors will be able to complete the backlog of audits by June 2025.		
Recommendation 4b	Agree	Estimated Completion Date:	June 2024
Please provide details of corrective action or explain disagreement.	The former application system was not able to generate the Transfer Audit Report weekly. Effective February 2023, Tax Credits auditors are able to access the Transfer Audit report from the new application system and review this weekly. The transfer reports are reviewed along with the		

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	recapture reports submitted by the local Finance/Treasurer's office. The Audit Division follows up with the local Finance/Treasurer's office to resolve any discrepancies and verify that recaptured HTCs are remitted. DAT receives a monthly Transfer Reports of all property transactions captured in AAVS. Transfer Reports are reviewed against what local counties remit to the Comptroller via the Revenue Accounting Journal form sent monthly. DAT then notifies the local Finance/Treasurer's office to alert and review/resolve any discrepancies.		
Recommendation 4c	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	The monthly Transfer Report includes all transferred properties as reported in AAVS. The amount of the HTC recapture is determined by the property's date of transfer. The Tax Credit Transfer audit clerk will use the recordation date to complete a calculation spreadsheet to determine the recapture amounts monthly. DAT will reach out to that local county's Finance/ Treasurer's office with any discrepancies.		

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Finding 5

HTCs recovered and remitted to DAT by local jurisdictions were not recorded when received or deposited in a timely manner.

We recommend that DAT

- a. ensure that all collections are recorded upon receipt and deposited in a timely manner as required by the Comptroller's *Accounting Procedures Manual*, and
- b. ensure that the aforementioned \$62,000 was received and deposited.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	DAT agrees with this finding. OLA's review of check deposits coincided with the department's return from COVID work conditions. During 2021 and 2022, DAT enforced stringent teleworking policies to comply with health regulations to ensure employee safety. Therefore, employees were not on-site to process mail daily. This, coupled with severe lags in the mail system, resulted in the delays captured in these findings. DAT's Accounting system also recorded the date reflected on the check as the date of receipt erroneously. The process by which local jurisdictions report and remit recovered HTC's requires verification by the Tax Credit's Deputy Director. DAT certifies the amount of reimbursement due each county, instead of the counties reporting that information directly to the Comptroller. To receive reimbursements, each jurisdiction is required to submit three reports to DAT monthly. Once the reviews are complete, the redemption reimbursement totals are recorded and the Spreadsheet Log and Invoice are completed and forwarded to DAT's Accounting Department. This department then submits them to the Annapolis General Accounting Dept. (GAD) for disbursement. Since 2020, the Deputy Program Manager has been in charge of this process. This involves independently communicating with financial clerks from all 24 local counties. If reports cannot be matched, the Deputy director must complete an investigation, and in some cases, help the new personnel in some counties locate the necessary information. This becomes time consuming and lengthy. Effective March 2024, an administrative assistant will be trained to fulfill these duties on a monthly basis.		
Recommendation 5a	Agree	Estimated Completion Date:	November 2023

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Please provide details of corrective action or explain disagreement.	Effective March 1, 2024, the duties of verification and redemption will be administered by an appointed Tax Credits Administrative Clerk. Local counties will be required to enhance their process of filing accurately so that it will match the checks received by the DAT Tax Credits unit. In November of 2023, formal accounting procedures were adopted to ensure the Comptroller of Maryland's guidelines are adhered to and checks are deposited within one working day. The DAT Accounting department implemented a policy to process checks daily, recording the date of receipt. This policy also ensures that the checks are deposited and recorded within one working day.		
Recommendation 5b	Agree	Estimated Completion Date:	October 2024
Please provide details of corrective action or explain disagreement.	To verify that the correct amount was recovered, the Tax Credits Deputy Director reviewed the amount of total redemptions submitted by this local jurisdiction in the fiscal year of 2022. DAT was unable to do so because in that year, the jurisdiction exercised the practice of withholding a portion of the state reimbursement to offset the \$62,000. Had they remitted the total tax credits and followed the processed adhered to by all other counties, that amount would have been reimbursed once verified.		

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Finding 6

DAT has not taken sufficient action to refund \$786,000 in HTC's due to certain homeowners for tax years 2017 to 2019.

We recommend that DAT take the necessary steps to notify all remaining homeowners to which refunds are due, and to ensure that any required refunds are paid promptly.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	DAT agrees with this finding. DAT determined all owners who were owed credits according to Chapter 717, Laws of Maryland 2021. On September 1, 2021, letters were sent to those impacted informing those constituents how to recover their funds. A total of \$7.9 million were successfully refunded to these property owners. However, some of the property owners were not notified as letters came back as undeliverable due to several reasons such as changes in address or transfer of property. DAT employed DoIT to create an online portal that would allow the department to inform owners of credit due and how to collect. DoIT was unable to deploy the portal due to an inability to agree on a solution that protected all Personally Identifiable Information.

Auditor's Comment: DAT indicated letters were sent informing those impacted how to recover their funds. However, as noted in the finding, not all those impacted were notified. As such, we continue to recommend that DAT identify and notify these individuals of the outstanding refunds.

Recommendation 6	Agree	Estimated Completion Date:	October 2024
Please provide details of corrective action or explain disagreement.	The Department's goal is to get 707 unclaimed/undeliverable homeowners' property tax credit refunds into the hands of their rightful recipients. Legislation that mandated these refunds was effective June 1, 2021. Therefore, under the applicable statute, the refund property is not presumed abandoned until June 1, 2024 at the earliest. By October 1, 2024, DAT will mail a notification to the last known		

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	address of all recipients advising the availability of these funds. After a 30-day waiting period from the mailing date, DAT will report the lingering unclaimed refunds as Unclaimed Property to the Comptroller along with a check for the unclaimed amounts. DAT will post a general notification online alerting property owner's that they may be due a refund from past years along with information on where to inquire about collecting those funds promptly.
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Personal Property

Finding 7

DAT did not obtain available Comptroller of Maryland records to help identify potential businesses that failed to register with DAT and file personal property returns.

We recommend that DAT

- a. use available Comptroller of Maryland records to identify and pursue entities that have not registered and filed a required personal property return (repeat); and**
- b. document any decision to not use those records and data and the related reasons, such as the results of a formal cost benefit analysis of their use.**

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	DAT agrees with this finding. The Comptroller's data has not been used by DAT since 2016 once it was proven that the data match would only return a match of 10 percent based on business entity names. There is a lack of a universal identifier that can be used to compare entities with an active sales tax account (assigned by the Comptroller) to entities that have registered with the Department (assigned by DAT). While no state agency objected to the idea of creating a Maryland Identification Number, it was determined that this project should be placed on hold until DAT and the Comptroller complete their major IT development projects, which are already underway. DAT's project began in 2022 with an expected completion year of 2025, and the Comptroller is expecting implementation to occur in the fourth quarter of 2024. Reconfiguring these systems to accommodate a unique Maryland Identification Number midstream may be outside the scope of the procurement.

Auditor's Comment: While DAT indicated agreement with our recommendations, it notes above that the Comptroller's data has not been used by DAT since 2016 once it was proven that the data match would only return a match of 10 percent based on business entity names. As noted in the finding DAT was unable to support the return percentage during or subsequent to the audit.

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Recommendation 7a	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	The State Department of Assessments and Taxation (DAT) has convened a task force to study and make recommendations on the adoption of a unique Maryland Identification Number for both entities that have registered with DAT and/or entities with active State sales tax accounts. DAT will obtain Comptroller data to identify and pursue entities that have failed to file an Annual Report with DAT.		
Recommendation 7b	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	DAT will conduct a current review of the data obtained and matched from the Comptroller based on the only comparable identifier, the legal entity name. A cost-benefit analysis will be performed to document and justify the decision to discontinue this review if not to be found cost- beneficial.		

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Disbursements

Finding 8

DAT did not verify the propriety of charges related to technology enterprise services received from the Department of Information Technology (DoIT) during fiscal years 2020 through 2023, which were valued at \$7.7 million.

We recommend that DAT

- a. ensure that all charges invoiced by DoIT are proper;
- b. execute an MOU with DoIT that specifies DoIT's responsibilities for providing technology enterprise services to DAT, including the individual services to be provided, the related costs, and required documentation to support amounts invoiced; and
- c. determine the propriety of the amounts previously invoiced and recover any amounts determined to have been billed improperly.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	The invoice submitted by DoIT exactly reflects the annual budget allocation from DBM. The Department is given a fixed budget every year. In the past, DAT has requested DoIT to enter into an MOU that would stipulate the itemized breakdown of enterprise services provided by DoIT. DoIT's response was to provide four quarterly invoices based on an allocated budget provided by the Department of Budget and Management. DAT was therefore unable to verify propriety of charges due to a lack of documentation from DoIT. As of August 21, 2024 an updated MOU has been signed and plans for execution are in place.		
Recommendation 8a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	DAT has worked in conjunction with the DoIT Portfolio Officer to update and execute a signed MOU that reflects information technology support services supplied to DAT, including the individual services to be provided, and the related costs. The MOU will require DoIT to submit up-to-date and timely documentation to support invoices submitted.		
Recommendation 8b	Agree	Estimated Completion Date:	December 2024

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Please provide details of corrective action or explain disagreement.	DAT has worked with DoIT to execute an MOU that accurately represents the needs of the department. Going forward, DoIT will submit a projected remittance request to the Agency on or about May 31 of each year, or no later than 30 days after delivery of the annual budget allocation from DBM, based on agency service usage and quantities agreed upon during the prior year's remittance process, showing estimated costs for services DoIT will render in the upcoming fiscal year. DoIT will discuss and confirm the Agency's service usage and quantities for the next fiscal year budget submission. The Department and DoIT will annually review service usage between May and July to confirm the level of the recurring services to which Agency subscribes for incorporation into the following fiscal year's budget submission.		
Recommendation 8c	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	DAT will request an itemized invoice of actual services rendered from fiscal years 2021 to 2023. This will be reviewed alongside a Portfolio Officer to determine if any amounts have been billed inappropriately and all efforts will be made to recover.		

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Information Systems Security and Control

OLA has determined that the Information Systems Security and Control section, including Findings 9 and 10 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with DAT’s responses, have been redacted from this report copy.

Finding 9

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 10

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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