



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

**State Department
of Assessments and Taxation**

Report Dated December 16, 2013



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Audit Overview

- The State Department of Assessments and Taxation (DAT) is responsible for administering the State's real and personal property tax laws, programs that provide property tax credits, and various functions applicable to corporations (e.g., issuing corporate charters and collecting certain taxes). DAT is headquartered in Baltimore City and it operates assessment and taxation offices in each of the State's 24 local subdivisions.
- In fiscal 2012, DAT's expenditures totaled approximately \$131.5 million and revenue collected totaled \$232 million. DAT's 2011 annual report identified the total assessable real property tax subject to State tax rates to be valued at \$690 billion consisting of 2,171,132 individual properties.
- The report included 11 findings, 4 of which were repeated from the preceding audit report and appear as 3 findings (**Findings 5, 10, and 11**) in this report.



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Key Audit Issues

- Certain aspects of DAT's quality assurance process for real property assessments, such as oversight of local assessment offices and documentation to support assessment values, need to be improved.
- Physical exterior inspections were not performed for all properties as required by State law and a record of inspections performed was not maintained.
- The Assessment Administration and Valuation System (AAVS) had vulnerabilities that placed critical assessment data at risk.
- Verifications of information on personal property returns and on applications for certain tax credits were not performed timely.



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Real Property Assessments

DAT had instituted certain quality assurance procedures, but written guidance was not established regarding certain oversight and supervision to ensure compliance with DAT policies. Further, we identified variations in the documentation for assessment values at 3 local offices reviewed (**Finding 1**).

- DAT lacked formal processes for independently reviewing local offices.
 - Area supervisors' oversight of local offices was not formalized. The extent of area supervisors' reviews, the method for communicating findings and corrective actions, and documentation requirements were not established in DAT policy.
 - The Department of Legislative Audits (OLA) tests found 16,948 property accounts at one local office that received land value reductions during one year ranging from 20 to 43% (totaling \$285.5 million), which could not be explained by the local office and lacked documentation of the area supervisor's review.



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Real Property Assessments (Cont.)

- DAT lacked written policies defining certain responsibilities of local office supervisors.
 - There was no requirement that local supervisors review assessment computations performed by assessors for reasonableness and document their approval.
 - We were advised that “spot checks” of assessors’ work were performed by reviewing various assessment system reports, but this was not documented.



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Real Property Assessments (Cont.)

- DAT's policies lacked specificity regarding the documentation to be maintained by local offices supporting residential and commercial property assessments.
 - 12 of 39 commercial property assessments lacked certain information supporting recorded values. For example, 4 properties with assessed values of \$58 million lacked current property income information. For 4 other properties, the recorded values (\$91 million) did not agree with the assessor's valuations (\$106 million).
 - For 5 of 6 residential properties with a total assessable base of \$1.3 million, there was no documentation supporting the market value index, which was also used to adjust values for about 9,400 properties in one jurisdiction.



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Real Property Assessments (Cont.)

Physical exterior inspections were not performed for all properties in accordance with State Law (**Finding 2**).

- DAT advised that physical inspections of all properties once every three years have not been conducted in many years primarily because of staffing shortages.
 - DAT only required physical inspections when certain events occurred such as a property was sold or new construction.
 - As of fiscal 2012, 152 field assessors were responsible for assessing 2,171,132 accounts over the 3-year cycle. DAT advised that the recent addition of 22 new assessors will not enable it to comply with the law.

- The number of physical inspections conducted by local offices could not be determined by DAT, since documentation requirements were not established and a record of all inspections was not maintained.



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Assessment Administration and Valuation System

DAT's centralized database (AAVS), which performs real property valuations and other assessment administration functions, had access vulnerabilities. Certain historical data was not archived (**Finding 3**).

- Due to deficiencies in the AAVS program, all system users (including those with read-only access) could perform unauthorized and undetectable modifications to property assessment data via commonly used functions. After OLA brought the matter to DAT's attention, DAT instructed the system vendor to resolve the issue.
- OLA noted that DAT was running a version of AAVS that was eight versions behind the latest version.
- DAT did not maintain a historical record of changes to AAVS data pertaining to the 2012-13 tax year.



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Assessment Administration and Valuation System (Cont.)

DAT procedures did not ensure that data received from local county government offices were reviewed and accurately entered into AAVS at the 3 local assessment offices we reviewed (**Finding 4**).

- For two local offices, critical information (real property sales, transfers, permit improvement data) was entered into AAVS via a manual process.
 - A log of such documents received was not prepared to ensure all information was entered.
 - There was no documented supervisory review to ensure all data entered AAVS was supported.
 - This is significant because permits that result in improvements $\geq \$100,000$ require completion of an assessment at that time.

- For a third office, the office did not verify that data received electronically from the local government was not properly processed. The local office advised that it lacked sufficient knowledge to review system reports of processing errors.



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Tax and Credit Verification Procedures

Certain verification procedures designed to help ensure the accuracy of information submitted on personal property returns, franchise tax returns, and applications of homeowners' and renters' tax credits were not performed timely or were not comprehensive (**Finding 5 – repeat**). For example, as of March 2013:

- Audits of selected personal property returns had not been performed for returns submitted for calendar 2008 to 2011 (latest tax year at time of our audit). The audits verify the propriety of reported values and ensure the accurate recordation of return information into DAT's personal property assessment system. Calendar 2011 personal property assessable taxable base was \$11.6 billion, from over 300,000 accounts.
- DAT had not completed audits of selected applications from homeowners and renters who were granted tax credits for calendar 2009 to 2011. Fiscal 2012 approved tax credits totaled \$65.3 million to approximately 61,000 taxpayers.



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Other Findings

- Security and control weaknesses were noted with respect to DAT's information systems and network.
 - Access and monitoring controls over the AAVS database were not sufficient to protect critical data **(Finding 6)**.
 - DAT's network was not adequately secured to prevent or detect security breaches **(Finding 7)**.
 - Malware protection on DAT workstations and servers needs improvement **(Finding 8)**.
 - An up-to-date and comprehensive disaster recovery plan did not exist **(Finding 9)**.

- DAT did not monitor certain payments to two contractors or verify that billings were proper prior to payment **(Finding 10 – repeat)**.

- Adequate accountability and control was not established over certain collections, which totaled \$23.5 million during fiscal 2012, including a lack of documentation that collections were subsequently deposited **(Finding 11 – repeat)** .



Conclusions

DAT needs to

- enhance its property assessment quality control processes;
- take appropriate actions to comply with State law regarding the physical inspection of properties and maintain records of inspections performed;
- perform a full evaluation of AAVS to identify and correct system access vulnerabilities;
- establish procedures to ensure the completeness and accuracy of data input into AAVS;
- perform timely verifications of information on personal property returns and applications for homeowners' and renters' tax credits;
- take the recommended actions to improve information security controls;
- ensure the propriety of contractor payments; and
- verify all collections received were deposited.