

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**PROACTIVE INTEGRITY SURVEY AT THE
OFFICE OF TAX AND REVENUE'S (OTR)
RETURNS PROCESSING ADMINISTRATION (RPA)**

OFFICE OF INTEGRITY AND OVERSIGHT



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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer



Office of Integrity and Oversight

MEMORANDUM

TO: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

FROM: William J. DiVello, Executive Director,
Office of Integrity and Oversight 

DATE: July 10, 2012

SUBJECT: Proactive Integrity Survey at the Office of Tax and Revenue's
(OTR) Returns Processing Administration (RPA) (**Report No. 12-02-01 OTR**)

Attached is our report summarizing the results of the Proactive Integrity Survey at the Office of Tax and Revenue's (OTR) Returns Processing Administration (RPA). The proactive integrity survey is designed to identify management issues and internal control deficiencies that may require immediate management corrective actions or further audit or investigation. The overall objectives of this survey were to determine whether RPA: a) complied with applicable laws, regulations and internal control policies and procedures; and b) implemented internal control activities to safeguard assets from fraud, waste and abuse.

OIO directed three corrective actions needed to OTR management to address findings cited in the report. We received a written response from OTR on January 24, 2012. OTR concurred with the corrective actions needed and provided planned actions with target completion dates that we consider to be sufficient and reasonable.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this survey. Should you have any questions or need additional information, please call me at (202) 442-6445 or your staff may contact Mohamad Yusuff, Director, Internal Audit at (202) 442-8240.

Attachment

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Chief of Staff, OCFO
Kathy Crader, Chief Risk Officer, OCFO

**PROACTIVE INTEGRITY SURVEY AT THE OFFICE OF TAX AND REVENUE'S
(OTR) RETURNS PROCESSING ADMINISTRATION (RPA)**

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PROACTIVE INTEGRITY SURVEY AT THE OFFICE OF TAX AND REVENUE'S (OTR) RETURNS PROCESSING ADMINISTRATION (RPA)

ABSTRACT

The Office of Integrity and Oversight (OIO) conducted a proactive integrity survey (the survey) at the Office of Tax and Revenue's (OTR) Returns Processing Administration (RPA) Review Unit. The RPA Review Unit is responsible for examining and troubleshooting tax returns that may have discrepancies based on pre-determined review criteria. The Review Unit consists of a manager, eight permanent tax examiners and one temporary tax examiner. This survey focused on how the RPA Review Unit manages the resolution of review items and inventory.

The survey identified management issues that require immediate corrective actions. These issues are: a) the termination of revenue protection review items without developing alternative or compensating internal control procedures; b) lack of background investigations of temporary employees, who have access to ITS and taxpayers' information; and c) a high volume of items in the review inventory, about 23% of the transactions, that are not workable by staff due to various conditions, including 916 transactions determined by tax examiners to have "system problems."

We directed three corrective actions needed to OTR management to correct the noted management issues. We received a written response from OTR on January 24, 2012. OTR concurred with the corrective actions needed and provided planned actions with target completion dates that we consider to be sufficient and reasonable. A copy of OTR's response is included as Exhibit A.

PURPOSE

The proactive integrity survey (the survey) is designed to identify management issues and internal control deficiencies that may require immediate management corrective actions or further audit or investigation.

The objectives of this survey were to determine whether RPA:

- 1) Complied with applicable laws, regulations and internal control policies and procedures
- 2) Implemented internal control activities to safeguard assets from fraud, waste and abuse.

SCOPE AND METHODOLOGY

The survey focused on the RPA's Review Unit operations and procedures. We reviewed the internal control policies and procedures at the Review Unit and the contract for temporary employment services. We interviewed the OTR RPA director, the Office of Management and Administration Office of Contracts and Procurement Director, OTR RPA branch chief, Review Unit manager, and six tax examiners. In addition, we met with OTR's Director of Operations, OTR Compliance Director, and OTR Chief of the Audit Division.

PROACTIVE INTEGRITY SURVEY AT THE OFFICE OF TAX AND REVENUE'S (OTR) RETURNS PROCESSING ADMINISTRATION (RPA)

We also reviewed and analyzed 200 Daily Production Reports produced by eight full-time tax examiners and one temporary tax examiner for the period September 2011 to October 2011.

MANAGEMENT ISSUES

Discontinuance of Certain Revenue Protection Review Items

In 2009 the OTR Compliance Administration discontinued the identification of review items and revenue protection cases associated with itemized deductions of certain percentage of Adjusted Gross Income "AGI" and Schedule C/Earning Income Tax Credit "EITC". In previous years, the identification of these types of cases would result in the disallowance or reduction in refund amounts for taxpayers that report fraudulent or incorrect amounts to increase their refund amount. The denial of these types of refunds is considered revenue protection for the District. With the discontinuation of these review criteria, no new cases have been created for review or audit and the Notice of Request for Additional Information Letter (the letter) was not generated nor mailed to the taxpayers. As a result, some questionable refunds could be paid to taxpayers without the internal controls in place to protect the District's assets.

The OTR Compliance Administration did not conduct any research or analysis of any potential negative effects resulting from turning off the review criteria nor did they develop alternative or compensating internal control procedures. The OTR Compliance Director stated the criteria were turned off due to a lack of human resources to work the large volume of inventory of review items these criteria generated.

The RPA has developed a modified letter to request self-employed taxpayers who filed for EITC to provide evidence of their business activity such as a copy of a business license or bank statement showing business income. The modified letter will be generated by ITS and should be effective for the upcoming 2012 tax filing season. The RPA Director stated that the modified letter should compensate for any internal control deficiencies and prevent any refund from being paid inappropriately.

Background Investigations for Temporary Employees

We reviewed the contract between OTR and a vendor for temporary employment services. The contract requires payment for services in the base-year (2007) not-to-exceed \$949,000 and includes four option years. The contract did not include any requirements for background investigations. For the 2011 tax filing season, the RPA hired six temporary employees and gave some of them access to ITS and taxpayers' information. The RPA director confirmed that the vendor did not provide any supporting evidence of any background investigations conducted for those temporary employees.

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(OTR) RETURNS PROCESSING ADMINISTRATION (RPA)**

In 2009, the OCFO Office of Contracts modified the standard language of all OCFO contracts and added a clause that allows the District to conduct background investigation on contractors. Unfortunately, the Office of Contracts did not request that OTR modify the contract for temporary employment services and add the new standard language.

System Problems Transactions

We reviewed and analyzed 200 Daily Production Reports produced by eight permanent tax examiners and one temporary tax examiner for the period September 2011 to October 2011. The Daily Production Report shows classification of transactions reviewed or worked by the tax examiner and reported to the Review Unit manager. The following table presents the results of this analysis.

Analysis of 200 Daily Production Reports at the RPA Review Unit

Transactions Classification	No. of Transactions			Percentage
	Individual Income Tax	Business Tax	Total	
Approved	5,301	3,716	9,017	58%
Denied	1,365	1,549	2,914	19%
Compliance	475	64	539	3.5%
Customer Service	314	50	364	2%
System Problems	218	698	916	6%
Already Approved/Denied	564	0	564	4%
Research	382	73	455	3%
Suppressed and Pending	264	431	695	4.5%
Total	8,883	6,581	15,464	100%

The analysis revealed that about 77% of the transactions are workable (transactions approved and denied), and approximately 23% of the transactions are not workable which include 916 (6%) transactions that the tax examiners deemed as unfixable or system problems. Some of these unfixable transactions are 5 to 10 years old; however, the transactions remain in the inventory. Tax examiners in the Review Unit confirmed these types of transactions have negative impacts on their efficiency and productivity, and they do not know how these transactions should be fixed or removed from ITS and SAND reports, or who in OTR has the responsibility to fix them.

**PROACTIVE INTEGRITY SURVEY AT THE OFFICE OF TAX AND REVENUE'S
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CORRECTIVE ACTIONS NEEDED

- 1) DCFO, OTR determine potential effects of decisions related to turning off any internal controls. A pre-decision research and analysis would guide OTR management to adjust the review criteria or increase the review/audit materiality levels instead of turning off internal controls.
- 2) DCFO, OTR coordinate with the Office of Contracts to modify any existing contracts for temporary employment services to include a standard clause that allows the District to conduct background investigations on contractors. In the interim, OTR management should request the vendor for temporary employment services provide supporting documents of background investigations, if any, conducted for temporary employees hired by OTR.
- 3) DCFO, OTR assign a team of tax examiners, auditors, and IT specialists to take the necessary actions to remove or fix the system problem transactions.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Corrective Action Needed No. 1)

OTR concurred with the corrective action needed and stated that pre-decision research and analysis will be conducted to guide OTR officials in their decisions concerning the addition or removal of internal filters designed to prevent issuance of unwarranted refunds.

OIO Comment

OTR planned actions are sufficient and reasonable.

Management Response (Corrective Action Needed No. 2)

OTR agreed on the corrective action needed and stated that OTR officials will work with the Office of Contracts to make the necessary modifications to allow the District to implement background investigations. In the interim, OTR will ask the Office of Contracts for permission to request its contractors to provide any background investigations documents relative to OTR temporary employees.

OIO Comment

OTR planned actions are sufficient and reasonable.

**PROACTIVE INTEGRITY SURVEY AT THE OFFICE OF TAX AND REVENUE'S
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Management Response (Corrective Action Needed No. 3)

OTR stated that with the current staffing and work load conditions it is not practical to employ additional resources to correcting old complex transactions. When the new tax system is implemented by FY 2013, OTR will form a team to transition the information in ITS as an interim file to be migrated into the new system as necessary for tax administration.

OIO Comment

Although OTR planned actions are pushed back to FY 2013 when the new tax system is implemented, we considered these actions to be responsive and reasonable.

EXHIBIT A: OFFICE OF TAX AND REVENUE'S RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF TAX AND REVENUE



Stephen M. Cordi
Deputy Chief Financial Officer

MEMORANDUM

TO: William J. DiVello, Executive Director
Office of Integrity and Oversight

FROM: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

DATE: January 24, 2012

SUBJECT: Draft Report on Proactive Survey at the Office of Tax and Revenue's (OTR) Returns Processing Administration (RPA), (Report No. 12-02-01 OTR)



The Office of Tax and Revenue (OTR) has reviewed the Proactive Survey pertaining to the Returns Processing Administration released December 21, 2011 with the corrective actions noted below.

Recommendations:

- 1.) DCFO, OTR determine potential effects of decisions related to turning off any internal controls. A pre-decision research and analysis would guide OTR management to adjust the review criteria or increase the review/audit materiality levels instead of turning off internal controls.

Response: OTR will conduct pre-decision research and analysis to guide it in their decisions concerning the addition or removal of internal filters designed to prevent issuance of unwarranted refunds. OTR management will document its research and decision making processes so it is transparent to those who look at the decision in retrospect why the decision was made and if it was based on sound principles. This will begin as of February 1, 2012.

- 2.) DCFO, OTR coordinate with the Office of Contracts to modify any existing contracts for temporary contracts for temporary employment services to include a standard clause that allows the District to conduct background investigations on contractors. In the interim, OTR management should request the vendor for temporary employment services provide supporting documents of background investigations, if any, conducted for temporary employees hired by OTR.

EXHIBIT A: OFFICE OF TAX AND REVENUE'S RESPONSE

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Response: OTR will have our contract coordinator work with the Office of Contracts to make any modifications possible to allow for the District to implement background investigations on contract employees. In the interim, OTR will ask the Office of Contracts for permission to request any supporting documents the contractors have relative to their contract employees at OTR. This will be implemented immediately but completion will be contingent on the response from the Office of Contracts.

- 3.) DCFO, OTR assign a team of tax examiners, auditors, and IT specialists to take necessary actions to fix the system problems transactions.

Response: OTR is preparing to implement a new system to replace the ITS system. Past efforts at fixing the system problems transactions that linger in the system have failed for one reason or another. OTR will be forming a team to transition the information in ITS to an interim file to be migrated into the new system as necessary for tax administration. With the current staffing and work load conditions it is not possible to employ additional resources to correcting old complex transactions that have evaded successful resolution in the past at this time. We will take whatever steps are appropriate when we begin the transition to a new system. The RFP for the new system has been published and it is anticipated that the transition will begin in early FY13.

If you have any further questions, please contact Glen Groff, Director of Operations, at 442-6499.

cc: Glen Groff