

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

**AUDIT OF CHANGES IN REAL PROPERTY CLASS CODES BY THE
OFFICE OF TAX AND REVENUE
REAL PROPERTY TAX ADMINISTRATION**

OFFICE OF INTEGRITY AND OVERSIGHT



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: Mohamad K. Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: May 5, 2014

SUBJECT: FINAL REPORT: Audit of Changes in Real Property Class Codes by the Office of Tax and Revenue Real Property Tax Administration (**Report Number: OIO: 13-01-05 OTR**)

The Office of Integrity and Oversight (OIO) conducted an audit of the process used by the Office of Tax and Revenue's (OTR) Real Property Tax Administration (RPTA) to change real property Class Codes 3 and 4. The attached report presents the results of that audit.

The audit identified five (5) deficiencies related to class changes. We found that management of real property class changes is not solely OTR's responsibility but also includes actions and coordination with the District's Department of Consumer and Regulatory Affairs (DCRA). This audit focused primarily on the areas under the OTR's management and control for program improvement.

OIO provided 6 recommendations to address the deficiencies identified. The OTR concurred with the recommendations and provided a response on November 12, 2013. As of the date of this report, all recommendations have been duly implemented by OTR.

Should you have any questions on this report, please contact me at (202) 442-6433, or your staff may contact Tisha N. Edwards, Senior Audit Manager, at (202) 442-6446.

Attachment

cc: Kathy Crader, Chief Risk Officer, OCFO
Glen Groff, Director of Operations, OTR
Robert Farr, Director of Real Property Tax, OTR

Audit of Changes in Real Property Class Codes by the Office of Tax and Revenue Real Property Tax Administration

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Audit of Changes in Real Property Class Codes by the Office of Tax and Revenue Real Property Tax Administration

ACRONYMS

AD	Assessment Division
ASD	Assessment Services Division
CAMA	Computer Assisted Mass Appraisal system
DCRA	Department of Consumer and Regulatory Affairs
District	District of Columbia
FY	Fiscal year
ITS	Integrated Tax System
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RPTA	Real Property Tax Administration
RPTAC	Real Property Tax Appeals Commission
SCR	System Change Request
TSG	Tax Systems Group
TY	Tax year

EXECUTIVE SUMMARY

OVERVIEW

The Office of Integrity and Oversight (OIO) conducted an audit of the Office of Tax and Revenue Revenue's (OTR) Real Property Tax Administration (RPTA) role in changing real property class codes. This audit was included in our FY 2013 *Audit and Integrity Plan* due to concerns raised during an FY 2012 Finance Oversight Committee hearing regarding inaccurate second half of 2012 property tax bills.

OIO's audit objectives were to: (1) obtain an overall understanding of the class code changing process employed by OTR/RPTA and the impact on the real property's value and tax billing; (2) determine whether OTR/RPTA maintains a functional system of internal controls to ensure that all class code changes are appropriately reviewed, approved timely, and updated in the Integrated Tax System (ITS); and (3) verify on a test basis that the class code changes recorded in the ITS are supported by appropriate documentation.

CONCLUSIONS

We found that the real property class change process is not fully an OTR/RPTA responsibility. OTR relies on the District's Department of Consumer and Regulatory Affairs (DCRA) to provide class change information. The DCRA is responsible for inspecting the properties throughout the city to determine the status of the property and must submit the "class change forms" to OTR for modification of the class code to properly bill for real property taxes. In this class change process, OTR and DCRA did not establish a formal tracking system to ensure that all class code changes submitted by DCRA were received and processed by OTR. Without a formal tracking system, the District runs the risk of not properly changing a class code on a property and its related billings.

We also found that OTR management did not formally document supervisory review to ensure that changes were entered accurately. In our review of policies and procedures in place as well as the OTR webpage information, we found that the information did not accurately reflect the current business practice used by the District.

We found a systemic weakness where there are Integrated Tax System (ITS) users, who have access to the class change feature although they do not have a business need to do so. Due to system limitations, this weakness cannot be systemically corrected at this time.

At the D.C. Council FY 2012 Finance and Revenue Oversight committee hearing, questions were raised on real property tax billings received by home owners. During our audit, we noted a programming error occurred in the 2nd half of the 2012 real property tax billings. This was the source of the problem that caused taxpayers to voice concerns over the tax bills to the D.C. Council.

EXECUTIVE SUMMARY

OTR has taken positive steps to resolve the findings noted in this report. The agency's web page and its procedures have been updated, and OTR plans to work with the DCRA on a formal tracking process.

SUMMARY OF RECOMMENDATIONS

OIO provided six (6) recommendations to the Deputy Chief Financial Officer, Office of Tax and Revenue (Deputy CFO, OTR). These recommendations include in part:

1. Coordinating with DCRA to establish a control system that enables tracking of class change forms to verify successful receipt of the forms from DCRA. Such controls can include incorporating a sequential numbering system to track changes.
2. Developing written policies and procedures that require formal review and management approval of all information uploaded into the ITS from DCRA.
3. Updating the Assessment Manual Vol.1 and OTR webpage to reflect the current information.

A summary of the potential benefits resulting from this audit is shown at **Exhibit A**.

AGENCY RESPONSE

The OIO received a written response from OTR on November 12, 2013. Clarification on the status of the recommendations was received on March 10, 2014 via e-mail. OTR concurred with the recommendations and provided corrective action steps to implement the recommendations. The actions were responsive and have been duly implemented by the agency. See the agency response in its entirety at **Appendix 1**.

INTRODUCTION

BACKGROUND

The Office of Tax and Revenue (OTR) is responsible for the assessment and collection of tax revenues on behalf of the District of Columbia Government (DC). The largest single tax revenue source is the real property tax. According to the OTR Tax Year 2012 Reassessment Effort Report dated February 23, 2012, "In Tax Year 2013, RPTA assessment notices will reflect an overall increase in District real property value from \$158.5 billion in TY 2012 to \$162.9 billion in TY 2013, a 2.8% increase. Commercial real estate (Class 2) will see an increase in the total commercial base from approximately \$72.6 billion to \$77.4 billion, an increase of 6.6%. Residential real estate (Class 1) will see the values go from \$85.9 billion in TY 2012 to \$85.5 billion in TY 2013, basically remaining flat."

Responsibility for real property tax administration in the District lies with the OTR/RPTA, and Real Property Assessment Division (RPAD). Provisions of the District of Columbia Official Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees (Code) govern the assessment and collection of real property taxes.

Real Property Tax Bills

DC Code §47-821 provides that all taxable real property in the District is subject to an annual levy of tax. Property owners receive property tax bill twice a year. The tax should be paid timely to avoid penalties and interest.

TABLE 1
Real Property Tax Bill Mailing and Due Dates

Billing	Period	Mailing Date	Due Date**
1 st Half	October 1 - March 31	Mailed in February	March 31
2 nd Half	April 1 - September 30	Mailed in August	September 15

Source: <http://otr.cfo.dc.gov/page/real-property-tax-bills-due-dates-and-delayed-bills>

**The majority of real property tax bills are mailed at the same time; however, a range of issues can delay the mailing of some of these bills. The due date for these delayed real property tax bills is adjusted accordingly.

How the Real Property Tax Is Computed

Real property is taxed based on its classification. Classification is the grouping of properties based on similar use. Properties in different classes are taxed at different rates. A tax rate is the amount of tax levied on each \$100 of the assessed value of the property. The rates are established by the Council of the District of Columbia and may change from year to year.

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The following table presents the current tax rates:

TABLE 2
Real Property Tax Rates

Class	Tax Rate per \$100	Description
1	\$0.85	Residential real property, including multifamily
2	\$1.65	Commercial and industrial real property, including hotels and motels for the first \$3 million of assessed value.
	1.85	Commercial and industrial real property, including hotels and motels, for assessed value more than \$3 million.
3	\$5.00	Vacant real property
4	\$10.00	Blighted real property

(Source: <http://otr.cfo.dc.gov/page/real-property-tax-rates>)

The “Fiscal Year 2011 Budget Support Act of 2010” created a Class 3 property tax rate for vacant commercial and residential properties and a Class 4 tax rate for blighted properties in the District of Columbia.

The OTR website¹ outlines how the real property tax is computed and provides the following information and examples:

The amount of tax due is determined by dividing the assessed value of the property by \$100, and then multiplying that amount by the rate for the class associated with the property, as illustrated in the following examples:

Example 1: Property A is classified as Class 1, which means the tax rate is 0.85, and the house is assessed at \$100,000: To determine the tax, divide \$100,000 by 100. That amount is \$1,000. Then multiply \$0.85 by \$1,000. The annual tax on Property A is \$850 (before the homestead deduction, senior citizen deduction, and/or trash credits).

Example 2: Property B is classified as Class 2, and the property is assessed at a total value of \$100,000, the tax rate is \$1.65: To determine the tax, divide \$100,000 by \$100. That amount is \$1,000. Then multiply \$1.65 by \$1,000. The annual tax on Property B is \$1,650.

Example 3: Property C is classified as a Class 2 property and the property is assessed at \$3.5 million, the tax is computed using a split rate of \$1.65 for the first \$3 million of the property assessment and \$1.85 for the balance of \$500,000: To determine the tax, divide \$3 million by \$100. That amount is \$30,000. Then multiply \$30,000 by \$1.65. That result is \$49,500. This is the tax on \$3 million of the total assessment. The balance of the total assessment, \$500,000, is

¹ The OTR website is located at <http://otr.cfo.dc.gov/page/real-property-tax-rates>

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divided by \$100. That amount is \$5,000. Multiply \$1.85 by \$5,000. That result is \$9,250. Therefore, the total annual tax on this Class 2 property is the sum of the tax on \$3 million (\$49,500) and the tax on the balance of \$500,000 (\$9,250), which totals \$58,750.

The District's Department of Consumer and Regulatory Affairs (DCRA) is responsible for handling complaints, identifying and processing the registration of vacant properties by owners, and administering certain fines if property owners do not register. DCRA also inspects properties, completes an annual survey of vacant properties, and certifies a list of vacant improved properties to OTR. OTR then changes the classification for the properties on the tax roll to the correct status for the appropriate real property tax year. DCRA is responsible for classifying properties as "vacant or blighted (Class 3/Class 4)," and its work is outside that of OTR and as such outside the scope of our audit.

RPTA does not assign class code changes; instead, the Integrated Tax System (ITS) automatically assigns the class based on the use code. Use code changes are made by roll correction through the Computer Assisted Mass Appraisal (CAMA) system and interfaced into ITS, while Class 3 or Class 4 changes are initially received from DCRA via electronic file and uploaded into ITS by the Tax Systems Group (TSG) under the Office of the Chief Information Officer (OCIO). Any subsequent changes are entered directly into ITS by un-checking or checking the appropriate box.

RPTA's only responsibility is to ensure that the appropriate class is reflected on the bill. Additionally, TSG provides the RPTA Assessment Division with a list (Excel file) of parcels having the homestead and/or senior citizen exemption benefits. The appraiser inspects the parcels to make certain that the benefits should be removed. If the appraiser finds that the parcel is in fact not vacant, this is reported to DCRA for their approval to remove it from the Class 3 or Class 4 program.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to:

1. Obtain an overall understanding of the class code changing process employed by OTR RPTA and the impact on the real property's value and tax billing;
2. Determine whether OTR/RPTA maintains a functional system of internal controls to ensure that all class code changes are appropriately reviewed, approved timely, and updated in the Integrated Tax System (ITS); and
3. Verify on a test basis that the class code changes recorded in the ITS are supported by appropriate documentation.

In addition to the objectives noted here, we addressed concerns raised at the D.C. Council FY 2012 Finance and Revenue Oversight Committee hearing, including the following:

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1. Billing errors on the second half of 2012 real property taxes;
2. The processes used by OTR/RPTA to change Class 3 and Class 4 Codes in the ITS;
3. Management reviews or involvement in class code changes;
4. Explanation on the discrepancies on the class 3 and 4 on the DCRA website for August 2012 against Real Property Assessment Database (during September 2012) and
5. Whether corrected bills were mailed out to respective property owners.

Based on the data provided to us during interviews, we developed tests of the documentation supporting the class code changes that were done in ITS. We traced the class codes changes made in the ITS system to the supporting documentation (class change forms) received from DCRA by RPTA. We also verified that all class codes change requests received from DCRA were accurately entered into the ITS system. Finally, we verified that all class codes changes made by the Appraiser were duly reviewed and authorized by the supervisor in accordance with RPTA's policies and procedures.

We reviewed 2,819 approved class codes changes that were processed by OTR/RPTA during the period October 1, 2011 through March 31, 2012. This review was done by selecting a statistical sample of 141 items using a confidence level of 99% percent, and a materiality level of 5%, with an auditor's expected error rate of 1 percent. DCRA provides the changes to property class codes 3 and 4 using an Excel spreadsheet designed for the purpose by RPTA.

OIO performed a series of steps to gain an understanding of the process and procedures relating to class code changes. These procedures included interviewing appraisers, managers, TSG staff, DCRA manager, and ASD management.

OIO could not fully address our third objective due to the lack of data. Efforts to obtain class change forms directly from DCRA during the audit period were not successful. DCRA is outside of the OCFO purview; therefore, we could not test the completeness and accuracy of the class change forms.

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits. 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.

FINDINGS AND RECOMMENDATIONS

FINDING 1: TRACKING OF CLASS CHANGE REQUESTS

SYNOPSIS

The process of transmitting class change forms between DCRA and OTR does not allow the agencies to track and verify successful transmission of class change forms to RPTA. The reason for this weakness is the absence of an effective internal control system to record and track class changes. As a result, there is limited assurance that all class change forms sent by DCRA are received and processed by OTR/RPTA.

DISCUSSION

Class Change Forms

The DCRA provides OTR/RPTA with class change forms with instructions to change class codes. These class change forms are sent to OTR/RPTA via email. There is no established schedule between OTR and DCRA for sending these emails. In some cases, days may pass without OTR receiving an email request and in other instances; several emails are received in a single day. OTR/RPTA does not have a system in place to verify that all the class change forms sent by DCRA are duly received. As a result, OTR/RPTA works with the information it receives from DCRA outside of a formal recording process.

This current practice does not assure successful receipt of all the class change forms sent by DCRA. Thus, if change form emails are not received by RPTA, for received and not tracked required changes may not be performed resulting in inaccurate real property tax bills generated.

Bulk class code changes are done semi-annually prior to the mailing of the 1st and 2nd half billings, which are mailed according to the schedule shown in Table 1 on Page 1.

Bulk changes are transmitted automatically through an interface between DCRA and OTR/RPTA. No manual class change forms are required for such bulk transfers. The ITS system will automatically generate the tax bills based on the new class code during the normal bill generation process. This process appears to work effectively.

Throughout the year, however, other class code changes are received and are transmitted from DCRA to OTR/RPTA via email. DCRA and OTR are separate agencies and do not share common databases or appropriate interfaces due to data security issues.

Errors and omissions usually come to the surface when taxpayers contact OTR on erroneous billings.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

We recommend that the Deputy CFO, OTR:

1. Take practical steps with DCRA to establish a control system that enables tracking of class change forms to verify successful receipt of the change forms by RPTA. Such controls can include a feature with a sequential numbering system.

Management Response (Recommendation 1):

OTR concurred with the recommendation. RPTA developed a spreadsheet incorporating sequential numbering. DCRA adopted the spreadsheet and has begun using it to report to the RPTA. The process was implemented with DCRA on October 23, 2013.

OIO's Evaluation of the Response:

OTR's action is responsive and meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2: CLASS CHANGE REVIEW PROCESS

SYNOPSIS

RPTA management does not review all class codes changes made by the appraiser in the ITS system. There is no verification that all changes made by DCRA are entered into ITS. Discussion with the acting chief appraiser² revealed that only a cursory review of the class codes changes made is performed. As a result, reasonable assurance does not exist that all class codes changes are entered in the ITS based on DCRA's instructions.

DISCUSSION

We obtained 2,819 approved class codes changes that were processed during the period October 1, 2011 through March 31, 2013. We selected a statistical sample of 141 items to test using a confidence level of 99%, and a materiality level of 5%, an auditor's expected error rate of 1%. RPTA provided OIO auditors with the supporting documentation received from DCRA for those class code changes.

Out of the 141 class codes changes tested, two or 1.42% contained class code errors. On a class change form (dated 10/10/2012) for SSL: 3107 0058 for TY 2012, there was two conflicting instructions regarding this property. The first instruction was to change class code from a Class 3 to a Class 1 (resulting in a tax change of \$15,299.26). The second instruction on the same form required RPTA to change class code of that same property from a Class 4 to a Class 3 (resulting in tax change of \$6,939.01). The correction form was signed by the assessor, supervisor, and the chief appraiser. Although the form went through multiple reviews, the "error" was undetected and was not brought to the attention of DCRA for correction or clarification.

In the second case, on a class change form (dated 8/10/2012) SSL: 5603 0085 for TY 2011, DCRA's instruction was to change the class code from class 4 to class 1; however this property was shown as Class 3 in the ITS. RPTA changed the class code in ITS from Class 3 to Class 1 resulting in a tax change of \$3,659.47. There is no record of communication with DCRA to clarify the difference in the class history of this property in the ITS.

OTR/RPTA reviewed these exceptions and informed OIO that this was an oversight on their part.

² At the time of our audit testing, the acting chief appraiser received the job permanently. All interviews and testing were conducted while he was in an acting capacity.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION:

We recommend that the Deputy CFO, OTR:

2. Develop written policies and procedures that require formal review and management approval of all information uploaded into the ITS from DCRA.

Management Response (Recommendation 2):

OTR concurred with the recommendation. RPTA incorporated a management approval sign-off process in the revised Assessment Manual. Additionally, RPTA is working with TSG to provide a report of all class changes made in ITS for comparison to the DCRA records on a random basis. The report should be completed by March 2014.

OIO's Evaluation of the Response:

OTR's corrective action is responsive and meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 3: POLICIES AND PROCEDURES MANUAL AND OTR WEBPAGE

SYNOPSIS

The Assessment Manual used for referencing by RPTA section is out of date. The Assessment Manual Vol.1 was last revised November 10, 2009. Management did not comply with best practices to timely review operating policies and institute updates accordingly. We also noted that information posted on the OTR webpage is not up-to-date. Many taxpayers obtain pertinent information and instruction from the webpage; therefore, it is imperative that information be up to date and accurate. The information on the OTR webpage has since been updated.

DISCUSSION

The RPTA did not comply with procedures requiring the regular update of the Policies and Procedures manual. Specifically, the District of Columbia, Office of the Chief Financial Officer “Financial Policies and Procedures Manual; Section V11: Assessment Division: Standards & Services (effective date 8/09/2011) paragraph 35504001.60.4 “Procedures for establishing and reviewing new procedures,” requires that procedures be updated as changes are made to the process. To facilitate this update, the chief appraiser is to meet with RPTA managers as necessary to review and approve new procedures or revisions to existing procedures. Procedures not approved during the initial review, are forwarded to the appropriate person for modification and resubmitted for a second review. However, in this instance, the update process did not occur as required due to major personnel changes in the office.

We found the following discrepancies in the procedure manual based on review of the manual against the current process:

TABLE 3
Discrepancies in the Policies and Procedures Manual

Discrepancy	Remarks
Class 3 Properties-Unimproved Properties	The DC Code has changed, this is no longer in effect.
Roll Corrections are prepared for each property on the list and approved by management	Management does not review/approve <i>each</i> property on the form.
The semi-annual list received from DCRA is reviewed by the Standards Unit to ensure accuracy of the data	The Acting Chief Appraiser stated that only limited review is performed on this data.

Additionally, the procedure followed by the appraiser to modify class codes was not documented in the manual.

FINDINGS AND RECOMMENDATIONS

During the survey phase of our audit, OIO researched the OTR webpage to gain an understanding about the operations and practices on the RPTA office. In our research, we found two discrepancies on the OTR webpage:

TABLE 4
Discrepancies on the OTR Website

<i>Discrepancy</i>	<i>Remarks</i>
<i>OTR certifies unimproved properties</i>	<i>DCRA certifies unimproved properties.</i> The chief appraiser confirmed that this is no longer accurate and the webpage information needs to be updated.
<i>“there are three classes of real properties in the District of Columbia ...”</i>	<i>There are four classes of real property in DC.</i> See Table 2 of this report.

The RPTA is responsible for property assessments, ownership and address changes, tax billings, tax relief program administration, and land recordation for real property in the District of Columbia. Taxpayers rely on this information in most cases; therefore, this information needs to be accurate all the time.

The OTR updated the website to reflect the correct information prior to the release of this draft report.

RECOMMENDATION:

We recommend that the Deputy CFO, OTR:

3. Update the Assessment Manual Vol. 1 (last revised 11-10-2009) as well as perform periodic reviews of the OTR webpage to ensure that they reflect the current process and information.

Management Response (Recommendation 3):

OTR concurred with the recommendation. Updates and addenda’s to the Assessment Manual Vol. 1 will be done as needed. OTR will review the website annually to ensure the information is timely and accurate.

OIO’s Evaluation of the Response:

OTR’s corrective action is responsive and meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 4: 2012 SECOND HALF BILLING ERRORS

SYNOPSIS

There was a programming error in the production of the tax year 2012 (TY-2012) second half real property tax billings, of which RPTA management was aware. This was due to a lack of managerial review, oversight, and ineffective internal controls over the billing process. This resulted in erroneous billings to taxpayers, which affected OTR's image and public relations.

DISCUSSION

The OTR/RPTA mails bills twice a year. The first-half billing is in February, and the tax payment is due by March 31. The second-half billing is in August, and the tax payment is due September 15. DCRA sends a bulk file to upload into the ITS to change property classes prior to the first and second half bill mailings. See Table 1 at page 1 of this report.

A discrepancy was discovered by the DCRA –Acting Enforcement Manager when it was noted that one of the properties in ITS still had the 2012 class code instead of a newly assigned class code for 2013. The DCRA manager alerted the RPTA Assessment Services Division (ASD) and TSG to investigate the matter. ASD and TSG discovered that all class codes 3 and 4 were not updated by ITS due to a programming error.

The following table provides the sequence of events related to the billing errors:

FINDINGS AND RECOMMENDATIONS

TABLE 5
2nd HALF 2012 BILLING ERRORS
SEQUENCE OF EVENTS

Date	Event	Remarks
August 17, 2012	Class 3 & 4 (2 nd half of 2012) uploaded into ITS.	Class codes changes were uploaded automatically.
August 20, 2012	About 99 commercial class 3 & 4 changes failed to upload and were kicked out because of the tax calculation business rule that was programmed not to accept class 3 & 4 code changes.	Problem identified by DCRA acting manager who raised the issue with OTR.
August 20- November, 2012	RPTA managed to manually correct 43 of the 99 kicked out cases leaving 56 properties in error.	The remaining 56 properties could not be changed without reprogramming the system.
September 2012	Second half of 2012 tax bills were mailed out including those with class codes errors.	Management stated that tax bills (including those with errors) were mailed out to comply with tax bill mailing deadline requirements.
November 6, 2012	RPTA was notified by TSG that the problem was fixed and could go into production.	81 days elapsed from the discovery of the error to resolution (Aug. 17 to Nov. 6, 2012)

OTR mailed out tax bill notices with errors despite noting the error before the bills were mailed. In our review of documentation, we did not see evidence that formal management meetings were held to discuss how to resolve the billing errors. The IT manager stated that the issue was discussed at the weekly RPT Billing/Status meeting with TSG. No formal minutes of these meetings were prepared.

After mailing the bills with errors, OTR management did not communicate with the affected taxpayers to let them know that the mailed bills had errors. Lack of communication with taxpayers led taxpayers to raise their concerns with the D.C. Council.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATIONS:

We recommend that the Deputy CFO, OTR:

4. Develop written policies and procedures for tracking and resolving identified problems in the billing cycle.
5. Communicate identified tax bill issues with tax payers and DCRA on a timely basis.

Management Response (Recommendation 4):

OTR concurred with the recommendation. RPTA and/or TSG will use the SCR TRACK + system in place if a problem arises.

OIO's Evaluation of Response:

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 5):

OTR concurred with recommendation. RPTA will work with TSG to identify affected taxpayers when a problem occurs. RPTA will take appropriate notice with the specific language addressing the issue at hand and send notice to the taxpayers.

OIO's Evaluation of Response:

OTR's corrective action is responsive and meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 5: USER PROFILES

SYNOPSIS

We found that the ITS user profiles at OTR/RPTA allow ASD employees to make class code changes in ITS. ASD employees are also responsible for billing and processing refunds. This conflict of interest increases the possibility of processing an improper transaction while remaining undetected.

DISCUSSION

The OIO met with the RPTA Assessment Services Division Chief to understand the role played by ASD in class code changes. During this meeting, we observed that the ASD Division Chief has the ability to change class codes in the ITS system.

ASD staff should not be able to change Class Codes in ITS system since they are also responsible for billing and processing refunds. The Division Chief acknowledged that he should not have that ability based on his division's responsibilities.

One of the most important elements of an internal control system is the segregation of incompatible functions. Essential to this process is the task of identifying the sets of functions which are incompatible. Once these have been determined the access capabilities (both direct and indirect) of each individual or group in the organization must be traced to ensure that no person has access to a set of incompatible functions.

Upon further discussion, it was determined that ITS system limitations do not allow for the restriction of access to the class change feature as it will interfere with other assessment service duties.

RECOMMENDATION:

We recommend that the Deputy CFO, OTR:

6. Develop a report to review changes to class codes on a regular basis to ensure changes are made by authorized employees.

FINDINGS AND RECOMMENDATIONS

Management Response (Recommendation 6):

OTR concurred with the recommendation. TSG will create a SCR to provide the report upon RPTA specifying the requirements. The report should be in production March 25, 2014.

OIO's Evaluation of Response:

OTR's corrective action is responsive and meets the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status ³
1	Take practical steps with DCRA to establish a control system that enables tracking of class change forms to verify successful receipt of the forms by RPTA. Such controls can include incorporating a sequential numbering system.	Internal Control	October 23, 2013	Closed
2	Develop written policies and procedures that require formal review and management approval of all information uploaded into the ITS from DCRA.	Internal Control	February 2014	Closed
3	Update the Assessment Manual Vol. 1 (last revised 11-10-2009) as well as perform periodic reviews of the OTR webpage to ensure that they reflect the current process and information.	Internal Control	February 2014	Closed
4	Develop written policies and procedures for tracking and resolving identified problems in the billing cycle.	Internal Control	November 12, 2013	Closed
5	Communicate identified tax bill issues with tax payers and DCRA on a timely basis.	Internal Control	November 12, 2013	Closed
6	Develop a report to review changes to class codes on a regular basis to ensure changes are made by authorized employees.	Internal Control	March 25, 2014	Closed

³ This column provides the status of the recommendation as of the report date. For final reports “Open” means management and OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management’s response was used. “Unresolved” means that management has neither agreed to the recommended action nor proposed a satisfactory action to correct the condition.

APPENDIX 1: OFFICE OF TAX AND REVENUE 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: Mohammad K. Yusuff, Executive Director
Office of Integrity and Oversight

FROM: Stephen M. Cordi
Office of Tax and Revenue

DATE: November 12, 2013

SUBJECT: **DRAFT REPORT:** Audit of Changes in the Real Property Class Codes by the Office of Tax and Revenue Real Property Tax Administration (**Report Number: OIO 13-01-05 OTR**)

The Office of Tax and Revenue's (OTR) responses to the Office of Integrity and Oversight (OIO) regarding the change to the real property Class Codes 3 and 4 are as follows:

Recommendations and Responses

- 1.) Take practical steps with DCRA to establish a control system that enables tracking of class change forms to verify successful receipt of the change forms by RPTA. Such controls can include a feature with a sequential numbering system.

Response: RPTA has developed a spreadsheet incorporating sequential numbering and presented it to DCRA with the recommendation that DCRA incorporate the design in all subsequent transmittals to RPTA. DCRA has adopted the spreadsheet and has begun using it to report to the RPTA. RPTA will track all subsequent transmittals to ensure that sequential numbering is maintained and there is no break in the number sequence. Any irregularities will immediately be reported back to the manager of the unit, via e-mail. Robert Worthington, senior appraiser, developed the spreadsheet and it was transmitted to DCRA on October 23, 2013.

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- 2.) **Develop written policies and procedures that require formal review and management approval of all information uploaded into the ITS from DCRA.**

Response: RPTA has incorporated a management approval sign-off process in the revised version of the Assessment Manual Vol. 1. The process entails providing the supervisor a copy of each spreadsheet report where the supervisor will randomly check the reports accuracy by comparing it to the records in ITS. Additionally, RPTA will request of TSG a report to include a listing of all class changes made in ITS via the lists provided for the semi-annual mass updates. The supervisor of the Standards and Services Unit will compare those lists, on random basis, to the file submitted by DCRA for accuracy. Where discrepancies occur, the supervisor will report the same to the appropriate person for resolution. The supervisor will follow-up as necessary.

- 3.) **Update the Assessment Manual Vol. 1 (last revised 11-10-2009) as well as perform periodic reviews of the OTR webpage to ensure that they reflect the current process and information.**

Response: Updates and addenda to the Assessment Manual, Vol 1 will be done as needed resulting from newly developed procedures, recent changes in the DC codes or municipal regulations, and the like. OTR's real property website will be annually reviewed to ensure the information contained therein is timely and accurate. These responsibilities will be assigned to the supervisor of the Standards and Services Unit and done at least annually, during the time between December and January.

- 4.) **Develop written policies and procedures for tracking and resolving identified problems in the billing cycle.**

Response: TSG and/or RPTA already have a process: the problems result in an SCR that is created and tracked in our TRACK+ system. The required change is discussed and vetted in several meetings (RPTA Billing Weekly meeting, Requirements Review, Demo) prior to implementation. Such requirements and demo are reviewed and approved by a group of subject matter experts from RPTA.

- 5.) **Communicate identified tax bill issues with tax payers and DCRA on a timely basis.**

Response: RPTA is responsible for contacting taxpayers. TSG will facilitate the mailing, with Wells Fargo, as needed. TSG will also work with RPTA to identify the affected taxpayers – as part of any SCR/corrective action requested.

RPTA will take appropriate notice with the specific language addressing the issue at hand. Once DCRA informs RPTA of the issue, (i.e. class change delay, erroneous class change, etc.), RPTA will work

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closely with TSG in implementing the necessary changes to the affected properties. Once that is completed, RPTA will mail out the specific notice to all affected property owners prior to mailing out a corrected bill.

6.) Develop a report to review changes to class codes on a regular basis to ensure changes are made by authorized employees.

Response: TSG will create an SCR to provide the report, upon RPTA specifying the requirements. TSG will create an SCR to provide the report, upon RPTA specifying the requirements. RPTA submitted a request to TSG to modify the existing Assessment Change report or to create a new report to identify authorized users.

If you have any additional questions, please contact Robert Farr, Director, Real Property Tax Administration, at 442-6685.