

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2010 AND 2011 SPENDING AND
PERFORMANCE BY THE OFFICE OF THE CHIEF
FINANCIAL OFFICER

Before the
Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

March 7, 2011, 10:00 a.m.
John A. Wilson Building
Council Chambers



Testimony of Stephen M. Cordi
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Good morning, Chairman Evans and members of the Committee on Finance and Revenue. I am Stephen Cordi, the Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to have the opportunity to testify today on the operations of the Office of Tax and Revenue.

Operations

In FY 2010, the Office of Tax and Revenue had a revised budget of \$62.1 million (\$55.2 million local) that included authorization for 497 employees. OTR completed the year with a surplus of approximately \$4,000 in local funds.

The FY 2011 budget for OTR is \$57.2 million and 482 FTEs, of which \$34.2 million is in local funding. Year to date expenditures and obligations are running on a pace with our current budget, and we project no surplus.

Compliance Initiatives

Despite the challenges of reduced staffing in some areas, OTR has continued to undertake a variety of largely automated revenue initiatives of significance.

In FY 2010, OTR successfully implemented DC's Tax Amnesty program. Total collections recorded were \$20.8 million, exceeding the \$20 million goal.

Delinquent taxpayers were filing up to the very last moment on September 30th, taking advantage of extended walk-in hours. I'd like to say a special thank you to the OTR employees who kept our offices open until midnight to assist these procrastinators!

The centerpiece of our post-amnesty enforcement program is the authority granted by Council to instruct employers to set employee withholding allowances to zero for tax delinquents. Notices are being mailed to the employers of 5,500 taxpayers who failed to take advantage of the amnesty, instructing them to set withholding allowances to zero. For the current year, this would result in \$1.4 million in revenue recovered.

OTR continues to utilize an automated fraud detection program that compares requests for refunds to the Enterprise Data Warehouse (EDW) to validate the taxpayer's identity. This program is one of the ways in which OTR is responding to the audit recommendation on W-2 reconciliation, and remains one of the most effective automated programs in the nation because of the sheer variety of data sources that are matched, which cannot be replicated in other state and local jurisdictions.

One other major compliance initiative underway is the federal vendor offset program authorized by Council last year. The program will enable the District to recover unpaid taxes (and ultimately other liabilities) from federal vendor payments made by the U.S. Treasury in exchange for providing a reciprocal offset for the Treasury against District payments. Programming for this is well underway, and we expect significant benefits in the current fiscal year and for years to come.

TY 2010 Filing Season

The current filing season is off to a slow start, due to delays with IRS readiness to accept returns impacted by the last minute tax changes made by Congress.

Through the middle of February, the percentage of electronically filed returns was

down by nearly 10%, but as of February 25th, the percentage is up by 2.4%. An IRS mandate for electronic filing should help improve our numbers.

The number of businesses taking advantage of electronic filing continues to grow as well, which also means strong growth in the dollars we are able to take in electronically. Not only does more electronic filing mean that the District can process each return more cost-effectively, but we have access to deposits sooner, and we can take advantage of the electronic data received to enhance compliance and fraud prevention programs.

Real Property

The FY 2012 assessment notices reflect an increase in District real property values from total value in FY 2011 of \$149.1 billion to \$159.6 billion in FY 2012, a 7% increase.

The commercial market has experienced an increase in the total commercial base from approximately \$63.6 billion to \$74 billion. This is an increase of about 16.3%.

In FY 2010, the Real Property Tax Administration billed a total of just under \$2.1 billion in real property taxes, a decrease of 1.8% from FY 2009. The delinquency rate for real property decreased slightly in 2010, but is still up from the norm of 10 to 13% that we experienced in most of the last decade. The annual tax sale collected \$11.2 million from 1,274 delinquent properties, including back taxes, penalties and fees owed to other District agencies. The special deed sales held in December 2010 brought in another \$8.9 on 374 properties. Finally, the Discount sale that will be held later this month will include 353 properties with total

delinquencies totaling \$10.2 million. This last sale is unique in that prospective buyers will be allowed to start the bids at \$300, regardless of the amount of tax due.

In FY 2010, the Recorder of Deeds (ROD) received approximately 119,000 documents, a 12% decrease from FY 2009, as a result of the general downturn in the economy. Although the number of recordings decreased by 12%, revenues increased by 22% to \$243.2 million, largely due to the value of the properties involved and the first time recordation of co-ops.

We have streamlined the Homestead/Senior Citizen application for accurate processing. The application is now a one-pager, which simplifies the reporting process for homeowners. The new application will enable our staff to verify entitlement on an automated basis.

Finally, after many years of concern about the deteriorating conditions at 515 D Street, ROD moved to the Southwest Waterfront at the end of June, 2010. ROD undertook a massive scanning project so that the books and other documents stored at 515 D Street can be archived. The old facility remained open for limited research on these documents while the scanning project is finished, until recently. A water pipe burst last month forcing us to close the old building, and causing damage to some of the documents, for which OTR will engage a vendor to do document restoration. We will all be glad when these historical documents are properly stored and preserved at the DC Archives.

Other key performance results for OTR include:

- The Customer Service Administration received more than 190,000 calls in FY 2010. Overall, average call wait time was less than 7 minutes, and average walk-in wait time was less than 8 minutes. However, during peak times (January through April) our wait times will exceed the average. Wait times through February are running just below the average times through the same period last year, particularly in the walk-in center. We believe this is attributable to increased use of self-service options. For example, the Interactive Voice Response Unit (IVR) handled approximately 72,000 calls in addition to those answered by our Customer Service personnel.
- Earned Income Tax Credit (EITC) claims increased by 4.4% in FY 2010 to 40,226 returns, with approximately \$44 million in EITC refunds delivered to District taxpayers.
- Last year, 195,232 individual income tax returns were filed electronically, an 8.5% increase from the prior year. Electronic returns represented 61% of the all tax year 2009 individual income returns filed, up from 53% the previous year.

Report on Internal Controls

For the last two fiscal years, OTR has been working closely with the OCFO's Chief Risk Officer (CRO) to identify systemic risks and existing controls in our most critical operations. Where existing controls were found to need reinforcement, and with an awareness of recommendations from the external auditors, OTR has initiated action plans to remediate these weaknesses. Wherever possible, we have built in redundant controls to ensure that we are able to detect suspicious or fraudulent activity even if preventative controls do not function as intended. We have also begun the first phase of ongoing internal control tests, which will help us identify potential problems before they trigger an audit finding.

OTR has made steady progress over these 2 years, from 18 Yellow Book findings in 2008 to 6 findings in 2010. Of those original 18 findings, the only one that remains open pertains to the reconciliation of withholding payments. While OTR has pursued significant control work in this area, we will continue to look for ways to ensure that we are implementing a sound revenue protection strategy and a robust audit program to identify fraudulent or erroneous returns.

In addition, an RFP has been issued for a new Real Property Tax System and, subject to capital funding, another will be issued for the replacement of the Integrated Tax System. Systems remain a key part of the solution to some of our identified control weaknesses, as we work to eliminate manual processes and build in specific controls and monitoring tools to reduce the risks of fraud. We hope that a new Real Property System can be implemented in 2013, with ITS replacement to follow beginning in 2015.

Conclusion

OTR continues to strive to improve the quality of tax administration that it is providing to the taxpayers, focusing on increasing revenue collections and strengthening internal controls while managing with reduced resources. We are looking for innovative ways to leverage automation to improve compliance, ensuring that the District is properly collecting and accounting for the taxes due to the city, which are so critical to the functions of the government and its citizens.

Thank you, Mr. Chairman, and members of the committee, for this opportunity to testify.