

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2012 AND 2013 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, 2013, 10:00 a.m.
John A. Wilson Building
Council Chambers



Testimony of Stephen M. Cordi
Deputy Chief Financial Officer
Office of Tax and Revenue

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

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 2012, the Office of Tax and Revenue had a revised budget of \$43.5 million (\$42.0 million local) that included authorization for 470 employees. The FY 2013 budget for OTR is \$59.4 million and 481 FTEs, of which \$45.3 million is in local funding. Year-to-date expenditures and obligations are running slightly below current budget due to vacancy levels in the first half of the year, however we believe that planned hiring and overtime expenditures will result in a minimal surplus for the year.

Compliance Initiatives

Over the past year, OTR has continued to undertake a variety of largely automated revenue initiatives.

One major compliance initiative underway is the federal vendor offset program authorized by Council in 2010. I am pleased to announce that this program is

going live this month. This program enables 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. We continue to manage a similar program to offset District vendor payments to satisfy tax liabilities of businesses operating in the District, and so far have captured more than \$1.7 million in delinquent taxes since September, 2011 from vendors providing goods and services to the District.

After some initial challenges, OTR has implemented an offset program for DMV debts authorized by the Budget Support Act for FY 2013. Offsets to date totaled more than \$748,00 applied to 3,940 tickets. We continue to work closely with DMV to refine this process, but are optimistic that it will provide a good return on investment for the District.

Beginning in April, the IRS will report merchant credit card sales so that automated matches can be made against the reported sales by District franchise taxpayers. We will perform an analysis and, based on the results, notify certain taxpayers that they should file amended returns to reflect the correct amount of sales and pay any taxes due. Those that fail to comply will be assessed a liability. Our initial notifications should be in the mail beginning in June, 2013.

OTR also implemented two new District laws at the beginning of FY 2013. Employers who have withholding tax accounts, but not sales tax accounts, must now file and report Use Tax became effective October 1, 2012 with the first report due October 20, 2013. To date, 1,503 returns have been filed reporting \$310,869.

New street vendor legislation also took effect October 1, requiring street vendors to file quarterly returns reporting sales tax collected. We identified 1,295 active accounts, opened street vendor accounts and sent the vendors information regarding the new requirement. To date, we have received 249 returns reporting \$148,000 in collections on 237 accounts. The largest filer reported and paid just over \$5,400. This is a class of taxpayers that were used to coming in and catching up at license renewal time, so it will take additional education and outreach in order to see regular reporting.

TY 2012 Filing Season

The current filing season got a late start due to the announced delay at the IRS as a result of the fiscal cliff negotiations. Nevertheless, we are not seeing a significant difference in electronic filing from the prior year.

The number of businesses taking advantage of electronic filing continues to grow, up approximately 5% so far this year, which also means strong growth in the dollars we are able to take in electronically. For all tax types, electronic payments are up nearly 12% over the same time last year, meaning that not only can the District process each return more cost-effectively, but we have access to deposits almost immediately, and we can take advantage of the electronic data received to enhance compliance and fraud prevention programs.

Beginning March 5th, OTR is conducting a series of community outreach events in all eight District wards (Please see the attached schedule of outreach events). Residents will be able to get tax preparation help, as well as meet with OTR representatives to resolve a variety of tax problems, including Homestead and Senior Credit issues, and questions about assessments. There is no charge for these services.

The Modernized eFile (MeF) application was implemented in January in time for the 2013 filing season, as required by the IRS. MeF is the District's new single portal for electronically-filed individual income tax returns using greater efficiencies, modern supportable architecture and XML-tagged data line language. Approximately 70% of this season's individual income tax returns are expected to

be processed as electronic filings by MeF. Along with MeF start-up, the District also decided to use DC Freefile in lieu of our own eTSC application for individual income filing. In making this decision, OTR was able to save programming dollars in the run-up to the filing season while still providing taxpayers with a free option for electronic filing. Of the filings to date, approximately 3% of the electronic returns received are through the DCfreefile application, which is approximately the same percentage filed using eTSC last year.

In FY 2012, OTR implemented combined reporting for corporate and unincorporated franchise tax filings. Through December 31, 2012, OTR received 1,557 combined D20 (Corporate) returns for TY 2011 and 169 D30 (Unincorporated) returns.

Real Property

The FY 2014 assessment notices mailed last week reflect an increase in District real property values from total value in FY 2013 of \$161.7 billion to \$169.6 billion in FY 2014, a 4.9% increase.

The commercial market has experienced an increase in the total commercial base from approximately \$75.6 billion to \$81.3 billion. This is an increase of about 7.5%.

In FY 2012, the Real Property Tax Administration billed a total of \$1.8 billion in real property taxes, along with an additional \$153 million in outstanding prior year billings. The annual tax sale last July collected \$13.4 million on 1,177 delinquent properties, including back taxes, penalties and fees owed to other District agencies.

In FY 2012, the Recorder of Deeds received approximately 134,000 documents, a 3% increase from FY 2011, reflecting continuing robust activity in the commercial sector. Revenues increased by 1.3% to \$322 million, again primarily due to commercial transactions, which are generally of a higher dollar value.

Other key performance results for OTR include the following:

- The Customer Service Administration received more than 185,000 calls in FY 2012. Overall, the average call wait time was less than 11 minutes, and the average walk-in wait time was less than 12 minutes. However, during peak times (January through April) our wait times will exceed the average. Wait times through February are running well below the average times

through the same period last year, in both the walk-in and call centers. We believe this is attributable to customer service initiatives focused on efficient and effective delivery of service. The Interactive Voice Response Unit (IVR) handled approximately 58,000 calls in addition to those answered by our Customer Service personnel.

- Earned Income Tax Credit (EITC) claims increased by 1% in FY 2012 to 43,905 returns, with approximately \$52 million in EITC refunds delivered to District taxpayers.
- Last year, 250,548 individual income tax returns were filed electronically, a 12.1% increase from the prior year. Electronic returns represented 68% of all tax year 2011 individual income returns filed, up from 65% the previous year.

Report on Internal Controls

Since 2009, OTR has been working closely with the OCFO's Chief Risk Officer to identify systemic risks and enhance existing controls in our most critical operations. Although OTR was cited in the Yellow Book for FY 2012, of the five findings issued, OTR already implemented recommended changes to two of them (the First Level appeals process and the interface between FoxPro and the Integrated Tax System) in October. Recommendations related to the period of

availability for accounts receivable and accruals for real property appeals will be implemented as part of the FY 2013 closing procedures as a change to legacy practices, and were fully reflected in the FY 2012 financial statements. OTR will also reinforce existing procedures regarding the reconciliation with the daily check register to ensure that reconciliations are timely and that appropriate due diligence is exercised to prevent errors. OTR believes we have made substantial improvements in the control environment over the last several years, and we continue to pursue a course of ongoing improvements through regular risk assessment and control testing.

Along with these recommendations, OTR continues to work to refine our methods for detecting and preventing fraud. While internal fraud is a risk that can be managed through rigorous control programs, OTR also faces a significant risk of external fraud from identity theft, refund schemes, and preparers and others seeking to take advantage of tax credits and other programs to which they are not entitled. We are constantly refining our filters and other automated matches to identify these suspicious filers and prevent these refunds from being issued.

Information Technology

On March 1, 2013, we re-issued the RFP for the replacement of the Integrated Tax System and expect to award a contract in the fall of 2013. Systems remain a key part of the solution to many 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 plan for a new Integrated Tax System to begin implementation in 2015.

Conclusion

OTR remains focused on the goal of improving tax compliance and providing efficient tax administration. OTR has made significant improvements over the last few years, without sacrificing compliance efforts or diminishing hard-won improvements in internal controls. We continue to look toward enhancements to our automated systems to improve tax compliance and reduce the risk of both internal and external fraud, generating increased revenue for the District.

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



FREE DC TAX ASSISTANCE

Individual • Business • Real Property

Throughout March, the **DC Office of Tax and Revenue** staff will be in **YOUR** community to offer a full range of tax services at the following convenient locations:

GET HELP WITH:

- Filing DC Individual Taxes
- Real Property Homestead
- Real Property Assessments
- Real Property Sr. Deduction
- Tax Resolution

Tues, March 5 th	2 PM – 6 PM	Anacostia Library, 1800 Good Hope Rd., SE (Ward 8)
Thurs, March 7 th	2 PM – 6 PM	Deanwood Recreation Center, 1350 49 th St., NE (Ward 7)
Tues, March 12 th	10 AM – 2 PM	Mt. Pleasant Neighborhood Library, 3160 16 th St., NW (Ward 1)
Thurs, March 14 th	2 PM – 6 PM	King Greenleaf Recreation Center, 201 N St., SW (Ward 6)
Tues, March 19 th	1:30 PM – 5 PM	Petworth Library, 4200 Kansas Ave., NW (Ward 4)
Thurs, March 21 st	2 PM – 6 PM	Cleveland Park Library, 3310 Connecticut Ave., NW (Ward 3)
Tues, March 26 th	2 PM – 6 PM	Lamond-Riggs Library, 5401 South Dakota Ave., NE (Ward 5)
Thurs, March 28 th	NOON – 5 PM	Martin Luther King Library, 901 G St., NW (Ward 2)

For more information, contact OTR Customer Service Center at (202) 727-4TAX (4829) or visit www.taxpayerservicecenter.com


