

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

**AUDIT OF THE OFFICE OF TAX AND REVENUE CUSTOMER
SERVICE ADMINISTRATION'S PROCESS FOR ADJUSTING
TAXPAYER ACCOUNTS**

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 29, 2013

SUBJECT: FINAL REPORT: Audit of the Office of Tax and Revenue Customer Service Administration's Process to Adjust Taxpayer Accounts (**Report Number: OIO-12-1-02-OTR**)

The Office of Integrity and Oversight (OIO) conducted an audit of the processes used by the Office of Tax and Revenue (OTR)'s Customer Service Administration (CSA) to adjust taxpayer accounts. This report presents the final results of that audit.

OIO's audit work identified three weaknesses in the systems of internal control related to the adjustment of taxpayer accounts. These weaknesses included:

- Ability of the CSA staff to issue refund checks to taxpayers where the account reached or exceeded the refund statute expiration date;
- Absence of written policies, procedures, and standards for the documentation of the adjustments to taxpayer accounts and the retention of the supporting documents for those adjustments; and
- Processing of complex tax returns, which may be beyond the CSA staff's training and technical expertise.

In the draft report, OIO originally provided eleven recommendations to OTR to address the weaknesses identified in the report. The Deputy Chief Financial Officer, Office of Tax and Revenue, provided the agency's response on May 14, 2013. OTR agreed with ten of the eleven recommendations and partially agreed with one other.

As of the date of this report, OIO has become aware of delays relating to the development and implementation of the Modernized Integrated Tax System (MITS). OTR's responses to three of the recommendations in this report are based on the timely implementation of MITS. Accordingly, should the delays continue, we recommend that OTR develop alternative procedures to mitigate the weaknesses where MITS is identified as the primary driver of the corrective action.

We appreciate the assistance and cooperation that you and your staff provided to us during the course of this audit. Should you have any questions on this audit, please contact me at (202) 442-8240, your staff may contact Tisha N. Edwards, Senior Audit Manager at (202) 442-6446.

cc: Kathy Crader, Chief Risk Officer, OCFO

Audit of the Office of Tax and Revenue Customer Service Administration's Process to Adjust Taxpayer Accounts

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Audit of the Office of Tax and Revenue Customer Service Administration's Process to Adjust Taxpayer Accounts

ABBREVIATIONS AND ACRONYMS

CA	Compliance Administration
CIO	Chief Information Officer
CRMS	Customer Relationship Management System
CRO	Chief Risk Officer
CSA	Customer Service Administration
CSS	Customer Service Specialist
CTS	Correspondence Tracking System
DCFO/OTR	Deputy Chief Financial Officer, Tax and Revenue
DC ST	District of Columbia Code
District	Government of the District of Columbia
FY	Fiscal year
GAO	U.S. Government Accountability Office
ITS	Integrated Tax System
MITs	Modernized Integrated Tax System
NOL	Net operating loss
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RAA	Revenue Accounting Administration
RAAS	Refund Anomaly Analysis System
RCU	Refund Control Unit
RPTA	Real Property Tax Administration
RSED	Refund Statute Expiration Date
<i>Standards</i>	<i>Standards for Internal Control in the Federal Government</i>
SCSS	Supervisory Customer Service Specialist
SOAR	System of Accounting and Reporting
TSG	Tax Systems Group
TY	Tax year

Executive Summary

OVERVIEW

The Office of Integrity and Oversight (OIO) as part of its *Audit and Integrity* Plan for fiscal year 2012 (FY-2012) included an audit of the processes used by the Office of Tax and Revenue (OTR) Customer Service Administration (CSA) to adjust taxpayer accounts. This report summarizes the results of that audit. The report includes 11 recommendations to improve the systems of internal controls that we found weak in three areas that we tested. The audit's objectives were: (1) verification that CSA maintained an adequate system of internal controls that safeguarded the assets of the Government of the District of Columbia (District) and assures reliable documentation of the changes to the taxpayer's account(s); (2) verification that CSA complied with the applicable laws, regulations and policies related to the change of taxpayer account data; and (3) determination whether CSA complied with the requirements of the OTR *Refund Directive*.¹ Our audit covered refunds approved by CSA with disbursement² dates between October 1, 2010 and September 30, 2011.

CONCLUSIONS

The systems of internal controls used by CSA to issue disbursements to taxpayers, adjust and document the adjustment of taxpayer accounts, and process complex tax return transactions and complex tax returns require improvements to safeguard District assets and ensure reliable reporting and documentation of changes to taxpayer liabilities and accounts.

We found that the process used to identify and approve refunds beyond the refund statute expiration date (RSED) needs improvement. We noted that it was possible for CSA staff to process and issue tax refunds that exceeded the RSED with minimal oversight or review of such transactions. Our testing identified that CSA issued at least one check where the RSED was exceeded. This improper refund was for \$1,631.

The documentation of adjustments to taxpayers' accounts and the process used to ensure retention of records to support account adjustments were hindered by the absence of written policies and procedures. The CSA customer service specialists (CSS's) and the supervisory customer service specialists (SCSS's) relied on "word-of-mouth" procedures to document account adjustments. Standards for document retention did not appear to be established or consistently enforced.

¹ OTR issued two directives related to the processing of non-automated refunds that were applicable to our audit period. OTR issued the first directive, *Interim Refund Directive*, on March 17, 2009, and it became effective on the same date. OTR issued the second directive, *Refund Preparation and Review Directive*, on June 9, 2011. This directive was effective the same day it was issued. The instructions applicable to CSA covered-transactions were similar in both documents. For the purpose of this audit report, OIO will use the singular term *Refund Directive* to refer to both directives.

² For the purposes of this audit, OIO will include both paper-based refund checks, mailed to the taxpayers, and electronic deposits of refunds, in a financial institution, as disbursements. OIO will use the terms refunds and disbursements throughout this audit report interchangeably.

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Additionally, we found that the CSA staff approved refunds that may have exceeded their training and knowledge of the District's tax. Our testing of a sample of refund transactions processed during the audit period identified four amended returns that included "**adjustments for net operating loss (NOL) carry backs**" which resulted in additional refunds of \$520,995 to the two different taxpayers and reductions in the District's Adjusted Gross Income of \$26.82 million on the Individual Income Tax Form (D-40) (see **Table 6, page 18**).

During the course of this audit, CSA reported to us that they made a number of significant changes to improve its systems of internal control and the process used for the initiation of taxpayer refunds. The changes included reducing the ability to enter changes into the Integrated Tax System (ITS), restrictions on the dollar value of the refunds that can be initiated without supervisory approval, and limiting the access to certain demographic data of individual taxpayers. These changes occurred outside of our audit period; therefore, OIO did not evaluate them and the impact that these changes have on CSA functions.

At the conclusion of this audit, CSA senior managers informed us that they developed a database to track the correspondence received by CSA. This database is to replace the Correspondence Tracking System (CTS) that was integrated into ITS. Responsible CSA officials stated that CTS was not effective in providing the staff with the necessary data to use when answering a taxpayer's questions. OIO was told that taxpayer correspondence could not be entered into CTS by the staff. Instead it would have to go through the Returns Processing Administration for entry into CTS and this would be done on a time available basis. It was also reported to us that the database was limited to the taxpayers, who were included in ITS at the time CTS "went live"; new taxpayers and changes to old taxpayer data could not be entered into CTS. Due to the limitations in CTS, the CSA staff developed their own process for documenting transactions. Many kept paper files of the taxpayer's correspondence which they would periodically purge to make room in their desk files and other in some of the file storage areas. This process limited access to the documentation effectively to one CSA staff member. However, the new database will allow for access to view the taxpayer provided documents and will allow all of the CSA staff to access the data. We were provided with some screen prints of the database. We did not verify the data we were provided at the time we closed the fieldwork portion of this audit.

OIO determined, during the audit, that it would not be able to meet the audit's third objective of determining whether CSA complied with the requirements of the *Refund Directive*. The transactions covered by the *Refund Directive* for CSA are specifically for manual refunds processed through the System of Accounting and Reporting (SOAR). Generally, CSA processes automated transactions through ITS that are not covered by the requirements of the *Refund Directive*. Instead of the *Refund Directive*, we compared CSA's process and documentation practices with industry practices, for example: (1) that a return was on file in ITS; (2) errors were documented within ITS; (3) supplementary documentation not filed with the original tax return was available for review; and (4) ITS notes provided a clear trail to the corrections needed and made by CSA staff.

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SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

OIO provided 11 recommendations addressed to the Deputy Chief Financial Officer, Tax and Revenue (DCFO/OTR) to address the causes of the conditions and weaknesses cited in this report. These recommendations include in part:

- Develop written policies and procedures for the processing of tax credits and refunds where the RSED may have been exceeded.
- Develop an ITS report that identifies all taxpayer account adjustments where the tax year is four years or more prior to the current tax year. This report should be provided to the senior managers in CSA and other OTR administrations for review.
- Require that CSA senior managers review and approve on an individual basis all adjustments and refunds of outstanding balances where the tax year is four or more years prior to the current tax year.
- Develop written policies procedures for the processing of taxpayer account adjustments and documentation standards for all CSA transactions and adjustments.
- Develop written procedures to be included within the *Refund Directive* or as a supplement to it related to the processing of refund transactions that are not covered by the instructions in the *Refund Directive*.
- Develop written policies, procedures and standards the documentation and processing of all CSA transactions. For refunds above the agency recognized threshold, these procedures should supplement the requirements of the *Refund Directive*.
- In conjunction with the OTR General Counsel; Director, CSA; and Director, Compliance Administration (CA); establish policies and procedures for the referral of high risk and complex tax returns for review by the CA Audit Division and the Office of the General Counsel (OGC) as appropriate.

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

The DCFO/OTR in his May 14, 2013 response generally agreed with ten of the eleven recommendations contained in the draft report. He partially agreed with Recommendation 1, which states that the erroneous refund should be collected from the taxpayer. The DCFO disagreed that OTR should collect penalties and interest based on the erroneous refund. The response noted that the payment was made as the result of an OTR error and as such the taxpayer should not be penalized for the error. Upon subsequent review, OIO agreed with the DCFO/OTR's position and revised the recommendation to reflect the agency's position.

A copy of the DCFO/OTR response is provided at **Appendix 1**.

Introduction

BACKGROUND

OTR is responsible for the proper and efficient collection and accounting for all the taxes and revenues due to the Government.³ OTR executes its mission through six administrations and three offices. The administrations are: CA, CSA, Real Property Tax Administration, Returns Processing Administration, Revenue Accounting Administration (RAA) and the Tax Systems Group (TSG)⁴. The three offices within OTR are OGC, Problem Resolution Office and the Tax Appeals Office.

In FY-2011 OTR collected \$5.995 billion in taxes and other revenues to support the District's General Fund operations. Tax receipts accounted for \$5.090 billion (84.90 percent) of the total General Fund revenues generated by OTR. Table 1 provides additional detail on the revenue sources and amounts collected.

Table 1
General Fund Taxes and Other Revenues
For the period October 1, 2010 through September 30, 2011
Amounts in \$000

Revenue Source	Amount Collected	Percent of Tax Revenues ^a	Percent of General Fund Revenues ^a
Real Property Tax	\$1,770,185	34.78	29.53
Income and Franchise Taxes	1,656,283	32.54	27.63
Sales and Use Taxes	1,066,366	20.95	17.79
Other Taxes	363,822	7.13	6.05
Gross Receipt Taxes	234,420	4.61	3.91
Total General Fund Taxes	5,090,076	100.00	84.90
Other General Fund Revenue	905,170	-----	15.10
Total General Fund Revenue	\$5,995,426	-----	100.00

Source: Government of the District of Columbia; Office of the Chief Financial Officer; *CAFR 2011, Comprehensive Annual Financial Report for the Year Ended September 30, 2011*; page 45

Notes: ^a Percentages do not add to 100.00 due to rounding

CSA provides the District's taxpayers and others with assistance in filing personal and business income, personal property, and real property taxes levied and collected by the District.⁵ CSA mission statement discusses providing high quality taxpayer services by employing the use of

³ OTR mission statement found at <http://www.ocfo.in.dc.gov/cfo/cwp/view.asp?A=1224&Q=496695>

⁴ TSG is part of the Office of the Chief Information Officer's (OCIO's) responsibilities. However, TSG solely supports the activities and operations of OTR and all the tax and tax related systems for the collection and accounting for taxes. OTR, with few exceptions, drives the scheduling and workloads of the TSG.

⁵ The CSA assistance provided to real property taxpayers is very limited. It generally consists of information on the tax rates charged, where and how to look up a specific property on line. All other inquiries are directed to Real Property Tax Administration for assistance.

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advanced technologies.⁶ CSA operates a telephone call center, a walk-in center for taxpayers and the adjustment unit, which processes initial registration forms for businesses to file and pay various District taxes and fees. To carry out its functions, at the beginning of FY-2011, CSA was authorized 57 positions, 48 of these positions were designated as either CSS or SCSS positions. These positions were divided among six teams assigned to the three locations. The balance of the nine positions was CSA management and support staff that provided oversight and services throughout CSA. CSA, according to unaudited data provided to OIO, during FY-2011 had approximately 400,000 individual contacts from taxpayers and others. Tables B-1 and B-2 (see Exhibit B) provide additional detail on the types and numbers of contacts received by CSA.

The CSA Operations Manager⁷ told OIO that all of the individuals filling the CSS and SCSS positions received their initial training in the call center. This allows them to gain the necessary experience and to consult with other staff prior to providing a caller with a response to their inquiry. Staff members move to the walk-in center as slots become available, where they obtain telephone call center experience. The former Acting Assistant Director stated that once the staff has received training in both centers they are interchangeable and can fill open slots in either area to meet management's needs. The individuals assigned to the Adjustment Unit received training in both the telephone and walk-in center operations and augment the telephone center staff when they are able or assigned to do so.

The Office of the Chief Financial Officer's (OCFO's) intent is to provide the taxpayers and others with a single location they can contact to receive data on the District's taxes, how they are assessed and levied, and the due dates for the various returns and payments of estimated and final taxes. As part of these services, CSA acts as the point of contact for the notices sent to the taxpayers by other OTR administrations. CSA assists the taxpayer to resolve the issue or questions raised by the notice and provide the taxpayer with data on the types of information needed to address the notice. CSA also acts as the point where the taxpayer can mail, e-mail or send a facsimile to address the notice or other request. CSA addresses adjustments of taxpayer accounts that cannot be resolved through the filing of an amended return. For example, a payment credited to the wrong tax year or account cannot be rectified by filing the amended return. In those instances, the taxpayer will contact CSA, provide the necessary data and evidence, and the CSA staff will make the necessary adjustments in the Integrated Tax System (ITS) impacting the tax liability for the taxpayer.

CSA has a process that will initiate various refunds of taxpayer credits; RAA responsibilities include reviewing refund transactions prior to the release of the refunds to the Office of Finance and Treasury for disbursement. RAA, on a sample basis, reviews the refunds generated by OTR for compliance with the applicable laws, regulations, policies, and procedures. The review of the refund disbursements is carried out by the Refund Control Unit (RCU). The RCU and other RAA staff use an internally developed database, the Refund Anomaly Analysis System (RAAS)

⁶ CSA mission statement found at <http://www.ocfo.in.dc.gov/cfo/cwp/view.asp?a=1224&q=496716#customer>

⁷ During the period of the audit the Operations Manager served as the Acting Assistant Director for CSA. For the purposes of this audit we will refer to this individual as the former Acting Assistant Director.

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to analyze the individual disbursement transactions and to determine whether the disbursement and the supporting documentation should be subject to additional review prior to its release. RAAS uses a risk-based selection process developed by RAA staff that incorporates several years of disbursement data to support its analysis and transaction selection. RAA provided OIO with a static copy of RAAS, which was updated through January 12, 2012, for our use in testing the CSA initiated refund disbursements. OIO initially extracted all of the CSA initiated disbursements, and then from our initial extract, identified all CSA initiated refunds with disbursement dates between October 1, 2010 and September 30, 2011. We did not consider which fiscal year the disbursement should have been charged to construct our disbursement population. Our population, based on our selection methodology included 12,075 disbursements with a total value of \$24,964,867. Table 2 provides summary data on the tax type, number of refunds by type and the value of those refunds.

This extract of 12,075 disbursements provided us with the ability to select two statistically valid samples from which we tested the adequacy of the documentation maintained by CSA. We also obtained a third non-statistical sample of disbursements for tax years (TYs) 2007 and prior. This produced a total population of 742 refunds with a total value of \$2,836,445. OIO used this sample to determine whether CSA provide a reasonable assurance that it complied with the applicable laws and regulations regarding expired tax refunds.

Table 2
Customer Service Administration Refunds – By Tax Type
Disbursement Dates between October 1, 2010 and September 30, 2011

Tax Type	Disbursements		Transactions	
	Value	Percentage ^a	Number	Percentage ^a
Ball Park	\$44,458.59	0.18	8	0.07
Corporate Franchise	2,552,348.98	10.22	178	1.47
Fiduciary	77,562.53	0.31	23	0.19
Individual Income	19,510,816.67	78.15	11,512	95.34
Personal Property	213,402.58	0.85	5	0.04
Sales and Use	16,736.12	0.07	17	0.14
Schedule L ^b	2,620.55	0.01	7	0.06
Special Events	199.81	0.00	1	0.01
Unincorporated Franchise	2,285,090.76	9.15	239	1.98
Withholding Reconciliation	206,661.04	0.83	38	0.31
Withholding	54,969.03	0.22	47	0.38
Total	\$24,964,866.66	100.00	12,075	100.00

Source: OIO analysis of CSA initiated refunds from RAAS

Notes: ^a Percentages do not add to 100.00 due to rounding

^b Provides tax credits/refunds to low-income long term homeowners for the difference between the FY-2009 and the FY-2010 taxes. The taxpayer can file for this credit separately from their taxes. Found at http://otr/cfo.dc.gov/otr/frames.asp?doc+/otr/lib/otr/2011_schedule_1.pdf

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OBJECTIVES, SCOPE AND METHODOLOGY

Our audit objectives were to:

- Verify that CSA maintained a system of internal controls that safeguarded the District's assets and assures reliable documentation of the changes made to the taxpayer's accounts;
- Verify that CSA complied with the applicable laws, regulations, policies, and procedures related to changing taxpayer accounts and issuing refunds to the taxpayers; and
- Determine whether CSA complied with the requirements of the *OTR Refund Directive*.

In order to meet these objectives we conducted the following activities and tests of documentation:

OIO interviewed the Chief Risk Officer (CRO) for the OCFO to determine the impact of the CRO's control testing on the control and substantive testing performed by OIO during the audit. We inquired from the CRO as to the status and effectiveness of the corrective actions by CSA based on the results of the CRO's quarterly testing.

We reviewed the operation of RAAS and extracted a population of 12,075 CSA initiated refunds. This population included all disbursements from October 1, 2010 to September 30, 2011. The population had a total refund value of \$24,964,867. Using the extract we selected a statistically based attribute sample of 210 items to verify that CSA had maintained a system of internal controls that assured reliable documentation supporting the account adjustments and refunds and that the District's assets were safeguarded. We selected the sample using a confidence level of 95 percent, an expected error rate of 3 percent and a tolerable error rate of 5 percent. OIO used a statistical sampling application to generate a series of random numbers that we used to select individual transactions.⁸

OIO was unable to evaluate CSA's compliance with the *OTR Refund Directive* as the transactions types included in the *Refund Directive* that were CSA's responsibility would result in manual refunds processed through SOAR. CSA is also involved in the processing of automated transactions processed through ITS that are not included in the scope or requirements of the *Refund Directive*. OIO did evaluate CSA's compliance with industry standards, best practices, and accepted internal controls for disbursements by selecting a statistically valid sample of large dollar value refunds. Our sample included 129 transactions with a total value of \$4,353,149 selected from a population of large dollar refunds of 319 items with a value of \$11,919,656. OIO selected the sample based on a confidence level of 95 percent, an expected error rate of 1 percent, and a tolerable error rate of 3 percent. Additionally, the auditor responsible for the testing of the transactions used professional judgment in evaluating the documentation supporting the individual transactions.

⁸ The statistical sampling application used for this audit was RAT-STATS, produced by the Office of Audit Services of the Office of Inspector General for the Department of Health and Human Services. OIO used RAT-STATS to compute the attribute size and the random numbers used to select the sample from the population.

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In order to evaluate CSA's compliance with the applicable statute for the expiration of tax credits and potential refunds we reviewed the D.C. Code to determine the applicable statute⁹. The statute states that the ability to issue a refund or tax credit based on a prior year tax ceases three years after the date the return is due, if the return is filed timely, the date that the return and request for refunds is filed, or the payment of the outstanding tax liability for that year, whichever is later. Using the refund expiration statute we determined the population of refunds issued for tax years 2007 and prior; we determined a population of 742 refunds with a total value of \$2,836,445. We selected a non-statistical sample of 35 refunds with a total value of \$1,587,275.¹⁰ The sample was selected using the 10 largest dollar value refunds and a random sample of 25 refunds selected from the balance of the population.

The audit objectives did not include verifying the accuracy of the tax returns underlying the refunds and the data supporting the adjustments included in our sample, or the veracity of the tax return data in ITS. OIO did not examine or audit any taxpayer returns within this audit. Therefore, we do not offer an opinion on the underlying returns and data used to generate the adjustments.

This performance audit was conducted in accordance with generally accepted government auditing standards. 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 the audit's objectives. We believe that the evidence provides a reasonable basis for our opinion based on the audit's objectives.

USE OF COMPUTER PROCESSED DATA

We assessed the reliability of the disbursement data in RAAS by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data was sufficiently reliable for the purposes of this report.

OTHER AUDIT RELATED PRODUCTS

OIO, on August 6, 2012, issued *Proactive Integrity Survey on Out of Statute Refunds at the Office of Tax and Revenue* (Report Number: OIO-11-2-25-OTR). This report discussed four management issues related to the processing of out of statute refunds. The issues include: the ability to override the system controls to authorize out of statute refunds; out of statute refunds were not written off in ITS; the ability to adjust returns beyond a reasonable timeframe; and refunds were made to taxpayers who request a carry forward credit instead of a refund. The

⁹ Title 47 section 4304 of the D.C. Code (DC ST 47-4304 (2001))

¹⁰ The results of a non-statistical sample cannot be projected to the population as a whole but only to the sample that was drawn. Based on the results of our testing we did not identify any items that may cause us to change our opinion of the test results.

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DCFO/OTR in the response to a draft of this report stated that he concurred management action was needed and provided corrective action plans to implement the necessary changes. OIO found that the corrective action plans were responsive to our concerns in the report.

OTHER SIGNIFICANT EVENTS

CSA, during the time we were conducting our testing of the transactions from the audit period, reported to us that they, in conjunction with the TSG, made several changes to the levels and types of access provided to CSS's and the SCSS's within ITS. The types of changes included the ability to change certain demographic and financial service industry data, the level at which a CSS could initiate a refund transaction without subsequent review and approval by a SCSS or other management level staff member, and the ability to enter other data changes into ITS. CSA now requires that more data be changed by the taxpayer through the submission of an amended return.

CSA has implemented a database system for identifying and tracking taxpayer correspondence and submission of supplemental information necessary to support the return. This database is designed to replace the current CTS and to act as a segway until the Modernized Integrated Tax System (MITS) is implemented. CSA explained that the current CTS system does not provide the CSA staff with the necessary data that they need to perform their functions. For example, correspondence received from a taxpayer cannot be entered into CTS by CSA staff. The documents are bundled and sent to the Returns Processing Administration for scanning into ITS. This scanning is done on a time and staff available basis, increasing the length of time necessary to process the data into CTS and provide links to it in ITS. A responsible CSA official told OIO that the current CTS database was limited to the taxpayers included in the database when CTS "went live," new taxpayers and changes to old taxpayer data could not be entered into CTS significantly reducing the utility of the system. To counteract this, CSA developed their own process for documenting transactions. Many of the transactions processed by CSA were maintained in paper files by the CSS and SCSS's staff. These files would be periodically purged to allow for the storage of additional files. This practice does not ensure that the files will be retained through the District's required document retention period. Similarly, electronic files of documents are retained by the individual CSS or SCSS staff. Each individual developed his/her own filing system and file naming conventions for these files. CSA's current practice limits access to one individual staff member assigned to the Unit; however, the new database provides access to data and supporting documentation for all the CSA staff. We were provided with screenshots of some of the database features during the audit. We did not verify that the reliability and data quality of this replacement database, as its development and implementation fell outside of our audit period.

Findings and Recommendations

FINDING 1: REFUND PROCESSED BEYOND THE REFUND STATUTE EXPIRATION DATE

SYNOPSIS

The system of internal control for the processing of refunds that may have exceeded the refund statute expiration date (RSED) requires improvement. OIO found that written policies and procedures for the processing of these refunds were not in place. Management reports have not been developed to identify the processing of refunds and tax credits that may have exceeded the RSED before CSA releases the refunds for disbursement. Supervisory reviews did not appear effective in identifying refunds that should have been denied or terminated before they are approved for disbursement. This weakness resulted in OIO identifying one refund of \$1,631 that was improperly issued during audit period.

DISCUSSION

The taxpayers are faced with a regulatory timeline, prescribed by DC ST 47-4304(a) (2001) in which they can request a refund of their tax overpayment. The statute states in part that, “... *a credit or refund of an overpayment of a tax imposed by this title shall not be allowed unless the taxpayer files a claim within the later of 3 years from the due date of the return or three years from the date the tax was paid.*” This applies to all taxes paid to the District except for real property taxes which do not have a time limit on the refund.¹¹

During our audit period CSA authorized 742 refunds for taxes that were applied to tax years 1997 through 2007. These refunds, which potentially reached or exceeded the RSED, amounted to \$2,836,445. A number of these refunds were the result of the taxpayer filing an amended return with the District, and CSA intervening, at a taxpayer’s request to move a return from a queue waiting for processing, to process and release the refund. The following table provides summary data on the refunds, based solely on the tax year in question.

¹¹ DC ST 47-4304(e) (2001)

Findings and Recommendations

Table 3
Refunds Authorized by CSA for Tax Years 1997 through 2007

Tax Year	Refunds Issued	Value of the Refunds
1997	1	\$34.10
1999	4	317.48
2000	5	3,644.71
2001	16	6,327.32
2002	18	15,018.10
2003	27	37,186.00
2004	30	274,663.08
2005	73	244,972.91
2006	144	590,606.36
2007	424	1,663,674.93
Total	742	\$2,836,444.99

Source: OIO analysis of RAAS database for CSA initiated refunds.

OIO released a report detailing the results of a proactive integrity survey on refund checks that were issued after they exceeded the RSED.¹² This report included comments related to: the ability of the OTR, and by default CSA, staff to authorize out of statute refunds; out of statute refunds and credits were not written off in ITS; the ability to adjust returns beyond a reasonable timeframe; and refunds made to taxpayers requesting a “credit carry forward.” The DCFO/OTR generally agreed with the report’s recommendations and stated that corrective actions would be taken to resolve the conditions cited.

To evaluate whether CSA, specifically, complied with the refund time limitation, we selected a non-statistical sample of 35 refunds from the 742 refunds that we identified in RAAS as issued during our audit period but applicable to tax years 2007 and prior. The sample included the ten largest refunds authorized by CSA and a random selection of 25 items from the balance of the population. Our sample totaled \$1,587,275 which represented 55.96 percent of the total dollar value of population of refunds we identified.

Our testing of this sample found that CSA issued one refund that exceeded the RSED. CSA generated the refund using the taxpayer’s amended Corporate Franchise return (Form D-20) for TY-2005 that was received by OTR on November 22, 2010. The RSED for this return was November 15, 2009. Table 4 provides additional detail on this improper refund.

¹² *Proactive Integrity Survey on Out of Statute Refunds at the Office of Tax and Revenue*; August 6, 2012; Report Number: OIO-11-02-25-OTR; found at http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/11.02.25.OTR_.pdf

Findings and Recommendations

Table 4
Refunds that Exceed RSED
October 1, 2010 through September 30, 2011

<i>Taxpayer Identification</i>	<i>Date of Disbursement by OTR</i>	<i>TY Applicable to the Disbursement</i>	<i>Disbursement Amount</i>
EIN 1340	July 26, 2011	TY-2005	\$1,630.97

Source: OIO analysis of RAAS refunds disbursed in FY-2011.

While a single refund that exceeded the RSED and the amount of the refund is not a material amount in this instance, the ability of CSA staff to issue RSED refunds, with a limited opportunity for detection and correction is a deficiency in CSA's system of internal control.

Our review of the other 34 refunds, in this sample found that many were impacted by significant delays in the processing and other processing errors. These delays and errors had a significant impact on the interest costs incurred by OTR. For example, we reviewed one taxpayer's account where they taxpayer filed amended returns for TY's 2004, 2005, and 2006 to revise original filings. A processing error in crediting a TY 2004 payment to the TY 2001 account period was subsequently identified. When this issue was resolved in September 2011, the District paid approximately \$65,251 in delayed refund interest costs. This sample of 35 refunds included payments of \$150,290 in interest costs.

The CSA staff and management we interviewed stated that they relied on an ITS routine that was designed to deny refunds when RSED had been equaled or exceeded. We found, in our testing for this audit, that the routine was generally effective. However, we reported in our *Proactive Integrity Survey On Out of Statute Refunds at the Office of Tax and Revenue*,¹³ that this control could be overridden by the staff member by modifying the received date of the return in ITS. Modifying the received date of a return to an in statute date, would allow the refund to be processed as if the RSED had not been met. OIO is aware, in some cases, that modifying a received date of a return is necessary to correct a processing error; however, this functionality should not be available to all CSA staff and procedures should be in place to require an independent supervisory review prior to the authorization of the refund.

We inquired about the existence of written policies and procedures to guide staff through the process to issue a refund that may have equaled or exceeded RSED. They stated that they were not aware of any policies and procedures that were available to do this. They relied on the ITS routine to determine whether the refund was appropriate and within the regulatory timeline. While written policies and procedures will not stop the issuance of refunds that exceed RSED, they may significantly assist in reducing those instances. Written policies and procedures could provide the staff with a guide to follow when a refund that exceeds RSED may be issued and the documentation necessary to support the release of the funds.

¹³ Ibid; page 3.

Findings and Recommendations

Also, we inquired as to the production of ITS reports that identified changes in tax accounts, where the tax year was four or more years older than the current date. Responsible CSA officials stated that they were unaware of this type of report, which could be helpful in identifying changes that require additional review before a disbursement is approved. Currently, CSA does not have a method that assures that these type of tax account changes would be identified. While the number of transactions may not be significant, the ability to identify and review potential high-risk transactions could reduce the instances of improper shifting of tax credits and releasing refunds that have reached the RSED. This type of reporting would allow CSA management to focus on the exception transactions, which could be quickly identified. OIO considers the absence of reporting exception transactions to be a systemic weakness in the system of internal control. The absence of the report does not allow for management to ensure that they are provided with the data necessary to review the performance of the staff and to focus on the exception/high risk transactions for additional review.

RECOMMENDATIONS

We recommend that the DCFO/OTR should take the following corrective actions:

1. Collect the improper payment from the respective taxpayer of \$1,631.
2. Develop written policies and procedures for the processing of refunds that may have exceeded the statutory refund date. These policies and procedures should include the baseline documentation requirements for supporting this type of transactions and outlining the approvals that are required for this type of transaction.
3. Require that CSA managers individually review and approve the processing and issuance of all refunds whose tax year precedes the current date by four or more years.
4. Develop a report that identifies all changed tax year accounts that precedes the current tax year by four or more years. This report should be included as part of the ITS overnight cycle and provided to the various administration's senior managers for review, testing, and approval of the transactions.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1)

We agree that the refund of \$1,631 should not have been issued and will take steps to recover the money. We do not agree that the taxpayer should be charged interest and penalties for receiving a refund issued in error.

Findings and Recommendations

OIO Comment

OIO agreed with OTR that the taxpayer should not be assessed penalties and interest for receiving a refund in error, and accordingly we revised the recommendation. When fully implemented this response addresses the recommendation.

Management Response (Recommendation 2)

A policies and procedures manual has been created and was reviewed by senior staff of CSA. After reviewing the draft of policies and procedures it was deemed inadequate and is currently being revised. The revised policies and procedures will be issued to CSA staff by August 1, 2013. CSA has partnered with Organization, Development and Learning to develop curriculum for on-going training and a training program for new employees. The development of the program is expected to be completed by the end of the current income tax filing season and implemented at the beginning of FY14. In the meantime, ad hoc training is being conducted by selected team leaders and supervisors.

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 3)

CSA management will use ad hoc reviews to monitor the changes made by employees that appear to exceed the statutory limits. The RCU looks at all of the paperwork that justifies refunds to out of statute periods before approving refunds. This is a more efficient use of resources.

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 4)

We agree with the recommendation and will include this report in the new system. It is not currently feasible to develop this report within our time cost constraints. In the interim, we must rely on the current review process.

OIO Comment

When fully implemented this response addresses the recommendation.

Findings and Recommendations

FINDING 2: INTERNAL CONTROLS AND DOCUMENTATION SUPPORTING CSA ACCOUNT ADJUSTMENTS
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SYNOPSIS

The transaction documentation process used by CSA requires significant improvement. The practices in place, at the time of our audit, do not provide the necessary assurance that all adjustment transactions are adequately documented and that the documentation is safeguarded and retained. Written policies and procedures for documenting transactions are not maintained by CSA. The organization relies on word-of-mouth procedures regarding the levels and types of records necessary to support the transactions. The *Refund Directive* addresses only the CSA transactions processed through SOAR and not the automated transactions processed through ITS, which comprise the majority of the transactions processed by CSA. Our sample of CSA-initiated transactions included a number of individual transactions where the only documentation available was a statement that the transaction was computer or system-based and did not require documentation. We, in some cases, were unable to determine the need for CSA's intervention by and also the type of correcting transaction performed. As a result, the types, level, and effectiveness of the transaction documentation varied widely, and in all cases did not provide adequate support for the transaction and the issuance of the refund.

DISCUSSION

The development and retention of documentation to support each transaction is critical to maintaining accountability for changes to taxpayer accounts. In the U.S. Government Accountability Office's (GAO's) publication *Standards for Internal Control in the Federal Government (Standards)*, GAO specifically discusses the need for the authorization of transactions, including documentation accompanying the transaction, by stating:¹⁴

Transactions and other significant events should be authorized and executed only by a person acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorization should be clearly communicated to managers and employees.

Additionally, the transaction needs to be clearly documented, both the transaction and the supporting documentation need to be readily available for examination and the documentation for each transaction needs to be properly managed and maintained.¹⁵

¹⁴ U.S. Government Accountability Office, formerly the U.S. General Accounting Office; *Standards for Internal Control in the Federal Government*; Report Number GAO/AIMD-00-21.3.1; November, 1999; pages 14-15

¹⁵ Ibid, page 15

Findings and Recommendations

During FY-2011, CSA did not have written policies and procedures in place to address the documentation, review, and retention of the ITS transactions processed by the staff. While CSA management required that documentation support all of the transactions processed, management did not develop the necessary policies, procedures, and standards necessary to meet the requirement. In our interviews with selected CSA staff, they told us that management would provide new requirements and documentation standards to them orally. One of the staff interviewed by OIO stated that they often referred to the training manuals provided when he received initial training for his current position. Further, he stated that the manuals were several years old and much of the material was dated and applied to prior versions of ITS. We found that the requirement that all transactions be documented was included in CSA's *Monitoring Plan Document*, which states the managers and SCSS's were to review at least two transactions per day from each of the assigned staff. The transaction review included the documentation supporting the transaction.¹⁶

CSA's unwritten policy has the apparent effect of minimizing the amount of documentation required to support any transaction. For documentation that was already available in the computer, there was no need to print it out as part of a documentation package. Instead, the ITS note should state that the transaction was supported by documentation in the computer. While this procedure minimized the size and number of documentation files, it had a potentially adverse impact on the RCU, which is responsible for reviewing the all OTR issued refunds, on at least a sample basis. The absence of documentation can make it harder for the RCU to conduct an efficient review and may not ensure that both the CSA and the RCU staff are viewing the same issue in the transaction.

Due to the absence of written policies, procedures, and standards, OIO used industry standards, best practices, accepted internal control practices, and professional judgment of the auditor responsible for the transaction testing. Further, to evaluate whether the documentation was appropriate, we applied the following standard:¹⁷

Prepare ... documentation in sufficient detail ... to understand from the documentation the nature, timing, extent, and the results of the procedures performed and the evidence obtained and its source and the conclusions reached that supports the ... significant judgments and conclusions.

Our testing found that the documentation for the transactions we tested had wide disparities in the content and form of the documents. We found that the transactions, we tested, ranged from fully documented to a single screen shot of an ITS note stating, "*No further documentation was required. Refund approval only.*" No explanation was offered as to why the refund was not

¹⁶ Office of Tax and Revenue, Customer Service Administration, *Monitoring Plan*, March 4, 2011; Adjustments (Crystal Reports); two transactions per assigned CSS per day; page 2

¹⁷ Comptroller General of the United States, US Government Accountability Office; *Government Auditing Standards 2011 Revision*; Report Number: GAO-12-331G; December, 2011; §5.16a; page 98

Findings and Recommendations

released or whether the documentation submitted by the taxpayer, if any, was sufficient to support the refund.

We found instances where the ITS note would state that a document (Schedule S, out-of-state tax returns, etc.) would be provided by the taxpayer. However, the documentation provided with the adjustment transaction did not include the documentation requested or a reference to a CTS tracking number or other indicator of where the document would be found. As a result, we were unable to assure ourselves that all transactions were appropriately documented.

The absence of policies, procedures, standards and baseline documentation requirements also impacted the processing of large dollar refunds. The application of the *Refund Directive* to transactions processed by CSA is limited to a few manual transactions that are processed through SOAR. Additionally, the transaction review, approval, and documentation required by the *Refund Directive* does not match well with the processing of an automated refund in ITS. The *Refund Directive* provides OTR administrations and offices with the minimum documentation requirements for manual transactions, processed through SOAR, listed in the document. The majority of the CSA transactions are automated refunds, processing through ITS, and are not covered by the *Refund Directive*, requirements. This creates a significant issue when the large dollar refunds are reviewed by the RCU. To evaluate the adequacy of the documentation RCU cannot rely on the *Refund Directive* and CSA does not have written documentation standards for the processing of large dollar refunds. As a result, RCU has to interpret the adequacy of the documentation based on their knowledge of the systems and any additional information they can obtain as they review the taxpayer's account.

OIO selected a statistical sample of 129 large dollar refunds, with a total value of \$4,353,149, issued during the audit period. Our sample was drawn from a population of 314 refunds with a total value of \$11,919,656 using a confidence level of 95 percent an expected error rate of 1 percent and a tolerable error rate of 3 percent.

The RCU provided us with detailed data on 128 of the refunds we selected.¹⁸ The following table provides a summary of the results of our work with these refunds.

¹⁸ The RCU was unable to locate the supporting documentation for one refund with a value of \$11,479.

Findings and Recommendations

Table 5
Sample of Large Dollar Refunds Initiated by the Customer Service Administration

	Total Sample	Missing Items	No Documentation ^a	Single Approval of Transaction ^a
Items	129	1	73	57
Percentage	100.00	0.01	57.03	82.43
Dollar Value	\$4,353,149	\$11,479	\$2,648,283	\$1,113,512
Percentage	100.00	0.26	60.99	25.65

Source: OIO analysis of CSA refunds processed through RAAS

Notes: ^aThe percentages are based on a population of 128 refunds with a total value of \$4,341,670

Our review of the documentation for these transactions found that one SCSS (ITSA91) approved 64 of the 73 transactions without external documentation, except for the *SOAR/ITS Refund Form*, which would indicate that the documentation for the refund was included in ITS.

The RCU manager, during an interview with OIO, told us that the RCU would comply with the documentation requirements for the individual administrations when they processed the large dollar refunds. Due to the absence of base line documentation requirements for CSA initiated-refunds, the RCU followed the CSA unwritten minimum documentation process when assessing the validity of the refund. The RCU manager did indicate to us that “all no-documentation refunds” were reviewed by her staff. The RCU manager further told us that she and her staff ensured that CSA followed the tier approval process established in the *Refund Directive* for the CSA automated refunds. Our testing confirmed this, as we found no exceptions for the required signatures at each of the approval levels.

The absence of consistently followed and applied base line documentation requirements for all CSA automated refunds does not allow the CSA management to provide a reasonable assurance that all the refund transactions are appropriately documented.

RECOMMENDATIONS

We recommend that the DCFO/OTR should take the following actions:

5. Develop written policies, procedures, and standards, for the base line documentation of all CSA transactions. For large dollar automated refunds these policies should supplement the requirements of the *Refund Directive*.
6. Require that CSA senior managers periodically review a sample of transactions for correctness and appropriate documentation. These reviews should be performed on a transaction and processing risk basis. When the documentation does not meet the policies and standards, corrective action should be taken, including any necessary retraining.

Findings and Recommendations

7. Require that all approvals for transactions be included in the ITS Notes application for the taxpayer's account.
8. Develop a correspondence database on a shared drive to maintain data received from the taxpayers by facsimile and mail that supports the adjustment to the taxpayers account.
9. Require the Modernized Integrated Tax System to provide the ability to scan documentation received from the taxpayers to support adjustments to the taxpayer's accounts. Once scanned this documentation should be incorporated into the taxpayer's account.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 5)

Written policies, procedures, and standards are being drafted and will be included in the new policies and procedures due to be issued by August 1, 2013.

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 6)

Work on this has already taken place and the new specific policies and procedures will be defined in the revised policies and procedures to be issued August 1, 2013.

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 7)

This will be included as part of the new policies and procedures.

OIO Comment

When fully implemented this response addresses the recommendation.

Findings and Recommendations

Management Response (Recommendation 8)

A correspondence database has been created and it is located on a shared drive. The ability to scan documentation received from taxpayers to support adjustments will reside in both the MITS and CRMS (Customer Relationship Management System) as a telephony component.

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 9)

The system requirements for the new MITS contains requirements for the capability of inputting documents for the taxpayer to support the adjustments and to document all correspondence received from the taxpayer. The system is required to be compatible with CTS or a like system.

OIO Comment

When fully implemented this response addresses the recommendation.

Findings and Recommendations

FINDING 3: TRAINING FOR THE REVIEW, DOCUMENTATION, AND PROCESSING OF COMPLEX CHANGES TO TAXPAYER RETURNS AND ACCOUNTS

SYNOPSIS

CSA did not have a training program in place that:

- Identified staff training needs for individual staffer in addition to CSA, as a whole;
- Provided training on changes to the operating systems for all staff;
- Provided updates to all the staff regarding changes to both the District's tax laws and the U.S. tax code that impact the District's taxes; and
- Provided approaches and requirements for documenting, reviewing, and approving complex tax transactions.

As a result, CSA could not provide the adequate assurances that staff reviewing and approving changes to the taxpayer's accounts had sufficient knowledge to ensure that the change made to the account was correct and that the staff member obtained sufficient and appropriate documentation to support the transaction.

DISCUSSION

GAO's *Standards* states that:¹⁹

All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.

Standards further discuss the need for training as part of the effective management of human capital resources by stating that:²⁰

Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs. Qualified and

¹⁹ Ibid, page 8

²⁰ Ibid, page 13

Findings and Recommendations

continuous supervision should be provided to ensure that internal control objectives are achieved. Performance evaluation and feedback, supplemented by an effective reward system, should be designed to help employees understand the connection between their performance and the organization's success. As a part of its human capital planning, management should also consider how best to retain valuable employees, plan for their eventual succession, and ensure continuity of needed skills and abilities.

Standard business practice, a basis for ensuring adequate internal control, is that the staff involved in the processing of refund transactions have a working knowledge of the type of transaction they are processing and the impact of the transaction on the tax return and refund.

As part of the sample of refund transactions, we identified four transactions where the CSA staff may not have had the requisite knowledge and technical experience to evaluate the transaction and then provide the requisite approvals.

The four transactions included in our sample involved the acceptance of a "NOL carry back." Our review of the documentation supporting the transaction within ITS did not identify that CSA staff or managers requested that the Audit Division or the OGC review the transaction to ensure its validity, and that the documentation provided by the taxpayer was appropriate. NOL carry back transactions are not common for individual taxpayers. Given the complexity of the transaction and its unusual nature, CSA should not have been the sole reviewer/approver of the transactions. The following table provides additional data on the four tax returns.

Table 6
Impact of the NOL Carry Back Transactions Processed by CSA

Entity Type and Taxpayer Identification	Date of the Refund Check	Tax Year Impacted by the NOL Carry Back	Change in DC Adjusted Gross Income ^a	Amount of the Refund ^b
JNT 6728	October 5, 2010	2006	\$ (8,909,727)	\$ 178,858.92
JNT 6728	October 5, 2010	2007	(5,541,648)	171,706.64
JNT 6728	October 5, 2010	2005	(12,045,767)	141,114.59
JNT 7278	November 27, 2010	2006	(327,094)	29,280.86
Totals			\$ (26,822,236)	\$ 520,995.01

Source: OIO analysis of the CSA refunds included in RAAS

Notes: ^a May include other changes in the income not specific to the NOL Carry Back transaction.

^b Amount includes interest (\$13,028.42) paid on the delay in processing the refund to the taxpayer.

In our considered view, CSA did not have training schemes in place that: (i) identified staff training needs, (ii) provided training on operating systems changes, (iii) updated staff on changes in both the District tax laws and the U.S. tax code and the impact on District taxes, and (iv) provided approaches and requirements for documenting transactions and reviewing and approving complex tax transactions. Based on our interviews with staff, we found that,

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generally, training was limited to the initial orientation provided to an individual staffer when first hired, one page updates from the General Counsel on DC tax law changes, and infrequent limited training on a specific issue within a CSA team. According to CSA managers, the staff training from external sources was eliminated due to OTR and CSA budget reductions.

Staff within CSA is expected to review, adjust, and document a wide variety of tax returns ranging from the simple to the highly complex. This is done with changing tax laws for District returns in addition to Federal tax changes that impact how income and deductions are reported on the District's return.

The absence of specialized training opens CSA to the potential of increased errors in the adjustment of various returns, authorizing improper refunds and movement of credits to taxpayers' accounts. Additionally, in our testing we identified issues related to compliance with the refund expiration statute and the documentation of adjustment transactions by the CSA staff. Both these issues have been impacted by the absence of an effective training program for the CSA staff.

RECOMMENDATIONS

We recommend that the DCFO/OTR should take the following corrective actions:

10. In conjunction with the OTR General Counsel; Director, CSA; and Director, CA establish clear and specific policies and procedures for the referral of high risk and complex tax returns for review by the CA Audit Division and OGC as appropriate.
11. Provide a scheduled program of continuing professional education to all staff of CSA on an on-going basis. This education should be set to match the duties and responsibilities at the appropriate grade levels. The Director, CSA should consider establishing individuals as subject matter experts in specific return types to address issues as they arise within CSA. The additional training for these individuals to meet a subject matter expert designation should be provided by CSA.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 10)

Policies and procedures will be drafted to establish clear guidelines for handling complex and high risk tax returns where a change in the liability is requested. General Counsel, the CA, and CSA directors will meet and prepare a draft of the policies and procedures for review by September 9, 2013. They will be finalized by October 31, 2013.

Findings and Recommendations

OIO Comment

When fully implemented this response addresses the recommendation.

Management Response (Recommendation 11)

CSA is in the process of developing comprehensive training requirements for its staff. The program outline will be completed by September 30, 2013, and will be implemented during FY14, subject to budget limitations. In the interim, training is being given to employees as the need becomes evident or there is a change of duties and responsibilities. CSA will consider establishing subject matter experts although it should be a rare occasion when a CSA employee needs to consult one. We expect CSA employees to address most of the questions presented to them by taxpayers. The most complex issues need to be referred to one of the experts in CA or the General Counsel's Office.

OIO Comment

When fully implemented this response addresses the recommendation.

**AUDIT OF THE OFFICE OF TAX AND REVENUE CUSTOMER SERVICE
ADMINISTRATION'S PROCESS FOR ADJUSTING TAXPAYER ACCOUNTS**

EXHIBIT A: Summary of Potential Benefits Arising from Audit (3 pages)

EXHIBIT B: Unaudited Performance Data from the
Customer Service Administration (1 page)

APPENDIX 1: Office of Tax and Revenue's Response (4 pages)

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS ARISING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status ²¹
1	Collect the improper payment from the cited taxpayer.	Monetary \$1,631	To Be Determined (TBD)	Open
2	Develop written policies and procedures for the processing of refunds that may have exceeded the statutory refund date.	Internal Control	Aug. 1, 2013	Open
3	Require that managers individually review and approve the processing and issuance of all refunds whose tax year precedes the current date by four or more years.	Internal Control	TBD	Open
4	Develop a report that identifies all changes tax year accounts that proceeds the current tax year by four or more years.	Internal Control	TBD	Open
5	Develop written policies, procedures and standards the documentation and processing of all CSA transactions. For refunds exceeding the agency recognized threshold, these procedures should supplement the requirements of the <i>Refund Directive</i> .	Internal Control	Aug. 1, 2013	Open

²¹ 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 alternative action to correct the condition.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS ARISING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status
6	Require that senior CSA managers periodically review a sample of transactions for correctness and appropriate documentation. These reviews should be performed on a transaction and processing risk basis. When the documentation does not meet the policies and standards, corrective action, including any necessary retraining should be provided.	Internal Control	Aug. 1, 2013	Open
7	Require that all approvals for transactions be included in the ITS Notes application for the taxpayer's account.	Internal Control	Aug. 1, 2013	Open
8	Develop a correspondence database on a shared drive to maintain information received from the taxpayers by facsimile and mail that supports the adjustment to the taxpayer's account.	Internal Control	TBD	Open
9	Require the Modernized Integrated Tax System to provide the ability to scan documentation received from taxpayers to support adjustments in the system. Once scanned this documentation should be incorporated into the taxpayer's account.	Internal Control	TBD	Open

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS ARISING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status
10	In conjunction with the OTR General Counsel; Director, CSA; and Director, CA establish clear and specific policies and procedures for the referral of high risk and complex tax returns for review by the CA Audit Division and OGC as appropriate.	Internal Control	Oct. 31, 2013	Open
11	Provide a scheduled program of continuing professional education to all staff of CSA on an on-going basis. This education should be set to match the duties and responsibilities at the appropriate grade levels.	Internal Control	Sep. 30, 2013	Open

EXHIBIT B: UNAUDITED PERFORMANCE DATA FROM THE CUSTOMER SERVICE ADMINISTRATION

Table B-1
Customer Service Administration Contacts Reported by Type in FY-11
(unaudited)

Type of Service Provided	Number of Contacts	Percentage of Total Contacts in FY-11 ^b
Telephone Calls Answered	153,960	38.18
Individuals Serviced at the Walk-in Center	46,828	11.61
Correspondence Answered	196,348	48.69
Responses to Taxpayer Electronic Mail Messages ^a	6,154	1.53
Total Service Contacts	403,290	100.00

Source: CSA's Acting Deputy Director, report titled Fiscal Year 2011 Accomplishments

Notes: ^a Data was not tracked separately during the period October 1, 2010 through March 31, 2011 per former Acting Deputy Director

^b Percentages do not add to 100.00 due to rounding

Table B-2
Service Contacts Reported by the Telephone Call Center and Walk-in Center
(unaudited)

Type of Service Provided	Telephone Call Center	Walk-In Center	Total Service Contacts ^a	Percentage of Total Contacts ^b
Real Property Taxes	76,413	11,312	87,725	34.71
Income Based Taxes (Individual and Business)	57,659	7,386	65,045	25.73
Business Taxes (includes Sales and Use)	45,037	12,318	57,355	22.69
Transferred Calls from IVR (Interactive Voice Response)	23,933	0	23,933	9.47
Inquires from Tax Practitioners	2,559	0	2,559	1.01
Clean Hands Certificates/Certifications	0	5,873	5,873	2.32
Tax Express	0	5,495	5,495	2.17
D.C. Tax Return Preparation	0	2,683	2,683	1.06
Miscellaneous	0	2,105	2,105	0.83
Total Service Contacts	205,601	47,172	252,773	100.00

Source: CSA's Report titled Fiscal Year 2011 Accomplishments

Notes: ^a Does not agree with Table 2 totals – relies on the CSA staff to record/track the type of services provided and multiple inquires from some taxpayers.

^b Percentages do not add to 100.00 due to rounding.

APPENDIX 1: 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: Mohamad K. Yusuff, Interim Executive Director
Office of Integrity and Oversight

FROM: Stephen M. Cordi
Deputy Chief Financial Officer

DATE: May 14, 2013

SUBJECT: DRAFT REPORT: Audit of the Office of Tax and Revenue Customer Service Administration's Process to Adjust Taxpayer Accounts
(Report Number: OIO-12-1-02-OTR)

The Office of Tax and Revenue has reviewed the Draft Report of the Audit of the Customer Service Administration's Process to Adjust Taxpayer Accounts. This is a written response to those findings along with corrective actions taken, planned corrective actions, or any disagreement with your finding along with the reason and an alternative solution if appropriate.

Finding #1: Refund Processed Beyond the Refund Statute Expiration Date

Recommendation #1: Collect the improper payment from the respective taxpayer of \$1,631 plus penalties and interest.

Response: We agree that the refund of \$1,631 should not have been issued and will take steps to recover the money. We do not agree that the taxpayer should be charged interest and penalties for receiving a refund that we issued in error.

Recommendation #2: Develop written policies and procedures for the processing of refunds that may have exceeded the statutory refund date. These policies and procedures should include the baseline documentation requirements for supporting this type of transactions and outlining the approvals that are required for this type of transaction.

Response: A policy and procedures manual has been created and was reviewed by senior staff of CSA. After reviewing the draft of policies and procedures it was deemed inadequate and

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is currently being revised. The revised Policies and procedures will be issued to CSA staff by August 1, 2013. CSA has partnered with Organization Development and Learning to develop curriculum for on-going training as and a training program for new employees. The development of the program is expected to be completed by the end of the current income tax filing season and implemented at the beginning of FY14. In the meantime, ad hoc training is being conducted by selected team leaders and supervisors.

Recommendation #3: Require that CSA managers individually review and approve the processing and issuance of all refunds whose tax year precedes the current date by four or more years.

Response: CSA management will use ad hoc reviews to monitor the changes made by employees that appear to exceed statutory limits. RCU (Refund Control Unit) looks at all of the paperwork that justifies refunds to out of statute periods before approving the refunds. This is a more efficient use of resources.

Recommendation #4: Develop a report that identifies all changed tax year accounts preceding the current tax year by four or more years. This report should be included as part of the ITS overnight cycle and provided to the various administration's senior managers for review, testing, and approval of the transactions.

Response: We agree with the recommendation and will include this report in the new system. It is not currently feasible to develop this report within our time cost constraints. In the interim, we must rely on the current review process.

Finding #2: Internal Controls and Documentation Supporting CSA Account Adjustments

Recommendation #5: Develop written policies, procedures and standards, for the base line documentation of all CSA transactions. For large dollar automated refunds these policies should supplement the requirements of the Refund Directive.

Response: These are being drafted and will be a part of the new policies and procedures due to be issued by August 1, 2013.

Recommendation #6: Require that CSA senior managers periodically review a sample of transactions for correctness and appropriate documentation. These reviews should be performed on a transaction and processing basis. When the documentation does not meet the policies and standards, corrective action should be taken, including any necessary retraining.

Response: Work on this has already taken place and the new specific policies and procedures will be defined in the revised policies and procedures to be issued August 1, 2013.

Recommendation #7: Require that all approvals for transactions be included in the ITS Notes application for the taxpayer's account.

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Response: This will be included as part of the new policies and procedures.

Recommendation #8: Develop a correspondence database on a shared drive to maintain data received from the taxpayers by facsimile and mail that supports the adjustments to the taxpayer's account.

Response: A correspondence database has been created and it is located on a shared drive. The ability to scan documentation received from taxpayers to support adjustments will reside in both the Modernized Integrated Tax System and CRMS (Customer Relationship Management System) as a telephony component.

Recommendation #9: Require the Modernized Integrated Tax System to provide the ability to scan documentation received from the taxpayers to support adjustments to the taxpayer's accounts. Once scanned this documentation should be incorporated into the taxpayer's account.

Response: The system requirements for the new MITS System contain requirements for the capability of inputting documents from the taxpayer to support adjustments and to document all of the correspondence received from the taxpayer. The system is required to be compatible with CTS or a like system.

Finding #3: Training for the Review, Documentation, and Processing of Complex Changes to Taxpayer Returns and Accounts

Recommendation #10: In conjunction with the OTR General Counsel: Director, CSA; and Director, CA establish clear and specific policies and procedures for the referral of high risk and complex tax returns for review by the CA Audit Division and OGC as appropriate.

Response: Policies and procedures will be drafted to establish clear guidelines for handling complex and high risk tax returns where a change in tax liability is requested. General Counsel, the CA and CSA directors will meet and prepare a draft of the policies and procedures for review by September 9, 2013. They will be finalized by October 31, 2013.

Recommendation #11: Provide a scheduled program of continuing professional education to all staff of CSA on an on-going basis. This education should be set to match the duties and responsibilities at the appropriate grade levels. The Director of CSA should consider establishing individuals as subject matter experts in specific return types to address issues as they arise within CSA. The additional training for these individuals to meet a subject matter expert designation should be provided by CSA.

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Response: CSA is in the process of developing comprehensive training requirements for its staff. The program outline will be completed by September 30, 2013, and will be implemented during FY14, subject to budget limitations. In the interim, training is being given to employees as the need becomes evident or there is a change in duties and responsibilities. CSA will consider establishing subject matter experts although it should be a rare occasion when a CSA employee needs to consult one. We expect CSA employees to address most of the questions and issues presented to them by taxpayers. The most complex issues need to be referred to one of the experts in CA or the General Counsel's Office.

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

cc: Eva Liggins
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