

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



Office of Integrity and Oversight

TO: Keith Richardson, Deputy Chief Financial Officer
Office of Tax and Revenue

FROM: Timothy Barry, Executive Director
Office of Integrity and Oversight *Timothy Barry*

DATE: September 25, 2019

SUBJECT: Final Management Alert Report: Improvement is Needed in the Lien Administration Process (OIO No. 18-01-10a OTR)

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) is conducting an audit of the Internal Controls over the Office of Tax and Revenue Collection Division Enforcement Action. The overall objectives of the audit are to determine whether: (1) tax lien collection actions complied with Federal and District Government statutes and regulations; and (2) adequate internal controls exist over the tax lien collection process.

During our audit, internal control deficiencies came to our attention that required management's attention. We provided six recommendations to your office to address the deficiencies identified. Your office responded August 29, 2019, concurred with the recommendations and provided planned corrective actions. The corrective actions presented were responsive and meet the intent of the recommendation. We have included your response in its entirety, at Exhibit B. Based on the planned completion dates provided, OIO will resume our audit in FY 2020 to determine if deficiencies were adequately addressed.

Should you have any questions related to the report, please contact me at (202) 442-6433; or Tisha Edwards, Director of Internal Audit, at (202) 442-6446.

Attachment

cc: Jeff DeWitt, Chief Financial Officer
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCRO
Eva Liggins, Director of Operations, OTR
Richard Dotson, Director, Compliance Administration, OTR

Background

The Office of Integrity and Oversight (OIO) is currently reviewing tax liens administered by the Office of Tax and Revenue (OTR) Compliance Administration Collection Division and related internal controls over filing, submitting, and releasing liens. Our review specifically focuses on compliance with policies and procedures and identified several deficiencies that warrant management's attention as it relates to lien administration. While the automated process has removed the ability of the revenue officer to be subjective in administering liens, there are still some matters that should be addressed in the administration of the automated lien process.

Observation 1: Liens were not administered in accordance with Policies and Procedures

Our testing determined that liens are not administered in accordance with the OCFO Financial Policies and Procedures manual, Task 22 Liens. The policies and procedures were updated to incorporate the e-lien process but do not address all aspects of lien administration. The lack of comprehensive procedures leads to inconsistency in enforcement and collection practices.

Filed Liens

In the e-lien process, a taxpayer account will move to the Pre-lien stage when the balance of non-liened debts in collection reaches a certain threshold. Once a balance is staged to Pre-lien, if the taxpayer does not resolve their balances within 30 days from the notice, then a lien is automatically created, filed with the Recorder of Deeds and mailed to the taxpayer. The only method used to notify the taxpayer of the lien is by standard mail to the address on file.

OIO requested a Modernized Integrated Tax System (MITS) returned mail report; however, one does not exist at this time. At our request, the Office of the Chief Information Officer's (OCIO)'s Tax Systems Group created a temporary report of returned pre-lien letters which indicates between January 1, 2019 and June 5, 2019, 343 letters were returned due to bad addresses.

When a lien is generated, it is permanently recorded in the Recorder of Deeds, becoming a public record that will have an adverse effect on the taxpayer's credit rating. Therefore, additional actions should be taken to ensure the taxpayer receives notification of the lien.

Released Liens

We identified two manually filed liens that were not released in accordance with the OTR policy. The OIO Internal Audit Division (IAD) requested an explanation for the releases from OTR Collections management. Upon their review, OTR Collections management determined that Liens 4027 and 6046, appeared to be released inappropriately or not in the District's best interest and requested a thorough review of each case. IAD referred the matter to the OIO's Internal Security Division (ISD) for investigation.

Based on ISD's review of the two liens, and interviews with revenue officers and supervisors, it was determined that Lien 4027, was released upon receipt of a personal check for the balance due of \$28,871.82 which was later returned for insufficient funds. The Supervisor confirmed that she accepted the taxpayer's personal check, and stated, "the taxpayer came in good faith and we trusted her...."

The Supervisor confirmed that there was a "practice on the floor" to accept a personal check and release the tax lien if the case officer had "a good rapport" with the taxpayer based on a good payment history. Revenue Officers (ROs) could either release the lien straightaway, or "babysit" the account by periodically checking in to ascertain whether the check cleared or was returned for NSF. The Supervisor stated that if the taxpayer had a bad payment history, then the RO should request certified funds. The Supervisor conceded that upon reflection, she "probably should have asked for certified funds since the amount was \$28,000."

In the release of Lien 6046, the lien was filed against a taxpayer in the amount of \$9,756. The RO assigned to the case released the tax lien and entered an account note stating that the reason was "due to [the taxpayer] not being informed about the lien... praecipe done to release lien." However, a review of the RO's voicemail messages indicated that the tax lien was in fact released because the taxpayer was attempting to refinance a mortgage. During a second interview, the RO stated the lien was released to allow the taxpayer to proceed with the loan; however, she could not explain the absence of taxpayer documents or account notes that supported this justification, and maintained the release resulted from a management instruction.

In the release of the two liens, the OTR Collection Division did not comply with the OCFO Financial Policies and Procedures Manual, Section 35.60.20.22.20 Policies, which stipulates, in part that a lien is released: "If a lien was filed in error by the District that needs to be released from the Taxpayer or When the taxpayer has paid the balance in full." Additionally, the policy states that the decision must be fully documented by the revenue officer or tax examiner in the case notes. For all cases over \$25,000, a manager must approve the decision."

Releasing tax liens prematurely or inappropriately, undermines the District's collection capabilities. In addition, poor recordkeeping and misleading account notes hinder the ability of management and independent agencies to properly monitor accounts.

Overall, the current policies and procedures do not reflect the current business practices for filing liens. Procedures should provide staff with up to date detailed instruction for the administration of liens to ensure consistency in enforcement practices.

Recommendations:

We recommend the Deputy Chief Financial Officer, OTR:

1. Revise the OTR's Financial Policies and Procedures for lien administration to capture the current business process and to provide adequate guidance to staff and managers for lien management.
2. Develop a MITS returned mail report by mail type to alert management of lien notices that were returned due to bad address.
3. Provide adequate training to OTR staff on the proper administration of liens including the maintenance of accurate records.

Management's Response and OIO Evaluation

Recommendation 1:

OTR agrees that the Compliance Administration, Collection Division will benefit from revised policies and procedures. As part of the annual policies and procedures review, the Collection Division identified subject matter experts to update the existing lien policies and procedures. The document will also define monitoring and oversight tasks. The policies and procedures revisions will be completed by September 13, 2019.

OIO's Evaluation:

OTR provided the updated procedures to our office on September 24, 2019. We will review the procedures and ensure they fully address the lien process when we resume our audit.

Recommendation 2:

OTR agrees with the recommendation. The Compliance Deputy Director and Collection Division Chief is in the process of assessing the volume of returned mail, while OTR management, with subject matter experts for Collection and Audit, have commenced working with the FAST staff to institutionalize the sample report provided to OIO. Testing will be

performed, and procedures will be established and documented in the revised policies and procedures.

OIO's Evaluation:

The planned corrective action is responsive and meets the intent of the recommendation.

Recommendation 3:

OTR concurs with the recommendation. The Compliance Administration Collection Division management and the subject matter expert team are in the process of developing a comprehensive training plan for new hires, as well as those current employees identified as requiring refresher training. The curriculum will include fundamental and advanced training topics, one of which is the tax lien administration process. Compliance management is also in the process of gathering and reviewing all facts related to the mishandling of liens 4027 and 6046. This comprehensive lien training will be delivered to all impacted employees no later than September 20, 2019.

OIO's Evaluation:

The planned corrective action is responsive and meets the intent of the recommendation. OIO will ensure training was provided when we resume our audit.

Observation 2: Lien Balance Monitoring is Required

The introduction of the automated e-lien process has substantially increased the filing of liens. From calendar year 2015 through May 2018 there were 1,517 manually filed liens created by Collections compared to 1,373 for the 7-month period June 1, 2018 to December 31, 2018. With the introduction of the e-lien process, liens are filed automatically based on balance thresholds. OIO reviewed 120 of the liens filed (60 manually and 60 automated) totaling \$4,993,408.43 and noted only eight liens totaling 148,128.37 or 3% of the lien balance were paid off by the taxpayer as of June 14, 2019.

This low collection rate may be due in part to the fact that liens are not automatically assigned to a Revenue Officer/Tax Examiner (RO/TE) for additional collection action. While the Collection Division should file liens to establish the public record of the debt, further action is required to follow-up on the liens to collect balances.

Currently, the Collection Division does not generate a lien aging report that reflects the current lien receivable balance. An aging report would track the length of time that the lien is outstanding with a dollar value. This report would help management prioritize which lien needs a review by the RO/TE.

Recommendation

We recommend the Deputy Chief Financial Officer, OTR:

4. Develop a lien receivable aging report to allow management to prioritize Collections.

Management's Response and OIO Evaluation

Recommendation 4:

OTR agrees that a MITS Lien receivable aging report will be beneficial to Collection Division management staff and will work with the FAST team to create an aging report based on criteria established by the Collection Division Chief, Supervisory Revenue Officer, Management Analyst, and Lien Specialist. The development and implementation will be completed no later than September 30, 2019.

OIO's Evaluation:

The planned corrective action is responsive and meets the intent of the recommendation.

Observation 3: Variances in MITS and CountyFusion Lien Records Require Reconciliation

Our review and analysis of lien case files extracted from ROD's CountyFusion application and MITS system revealed a difference of 3,666 liens between MITS lien records and the ROD CountyFusion filed as of May 15, 2018. The bulk of the variance, 3,333 liens, related to liens manually administered in the Integrated Tax System (ITS) and converted to MITS. At the time of conversion, the MITS Purification team input a limited number of liens based on ITS records. The remaining variance of 333 liens was related to the manual lien process in place prior to the automated interface and the lack of account reconciliation and monitoring.

It is imperative that public records as well as tax records are in line and properly state the status of taxpayer's accounts.

Recommendations: We recommend the Deputy Chief Financial Officer, OTR:

5. Analyze the variances between ROD CountyFusion and MITS lien records and resolve differences to ensure taxpayer records are accurate in MITS and ROD CountyFusion.
6. Perform monthly reconciliations of liens recorded in MITS and ROD to determine that all liens from both systems agree.

Management's Response and OIO Evaluation

Recommendation 5:

OTR concurs with the recommendation. The Compliance Management Analyst will work with the Compliance Deputy Director and Collection Division Chief to establish a partnership with ROD to gain access to the data necessary to make the comparison. The Data Analyst will then perform the required analysis. Upon completion of the initial analysis, the Management Analyst will determine the frequency and document the process. The processes will be fully implemented no later than November 30, 2019.

OIO's Evaluation:

The planned corrective actions are responsive and meet the intent of the recommendation.

Recommendation 6:

OTR concurs with the recommendation. The Management Analyst will work with the Compliance Deputy Director and Division Chief to establish a partnership with ROD to gain access to the data necessary to make the comparison. The Management Analyst will perform the required analysis and report findings to the Division Chief for resolution. The policies and procedures for resolving any discrepancies will be included in the revised lien procedures.

OIO's Evaluation:

The planned corrective actions are responsive and meet the intent of the recommendation.

EXHIBIT A: Summary of Recommendations and Benefits

No.	Recommendation	Type of Benefit	Agency Reported Estimated Completion Date	Status ¹
1	Revise the OTR Financial Policies and Procedures for lien administration to capture the current business process and to provide adequate guidance to staff and managers for lien management	Internal Control & Process Improvement	September 13, 2019	Closed
2	Develop a MITS returned mail report by mail type to alert management of lien notices that were returned due to bad address.	Internal Control	September 30, 2019	Open
3	Provide adequate training to OTR staff on the proper administration of liens including the maintenance of accurate records.	Internal Control	September 20, 2019	Open
4	Develop a lien receivable aging report to allow management to prioritize Collections.	Process Improvement	September 30, 2019	Open
5	Analyze the variances between ROD CountyFusion and MITS lien records and resolve differences to ensure taxpayer records are accurate in MITS and ROD CountyFusion.	Internal Control	November 30, 2019	Open
6	Perform monthly reconciliations of liens recorded in MTIS and ROD to determine that all liens from both systems agree.	Process Improvement & Internal Control	November 30, 2019	Open

¹ This column provides the status of the recommendation as of the report date. For final reports “Open” means management and the OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised that the action taken needed to correct the condition 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 take the recommended action nor proposed satisfactory alternative actions to correct the condition.

Exhibit B: Management's Response

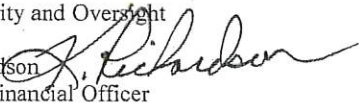
GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer
Office of Tax and Revenue



Keith J. Richardson
Deputy Chief Financial Officer

MEMORANDUM

TO: Timothy Barry, Executive Director
Office of Integrity and Oversight

FROM: Keith J. Richardson 
Deputy Chief Financial Officer

DATE: August 29, 2019

SUBJECT: Management Alert Report: Improvement is Needed in the Lien Administration Process
(OIO No. 18-01-10a OTR)

This is in response to the Management Alert Report: Improvement is Needed in the Lien Administration Process (OIO No. 18-01-10a OTR). We have reviewed the report and are providing the following responses based on the recommendations outline in the report:

Recommendation 1: Revise the OTR Financial Policies and Procedures for lien administration to capture the current business process and to provide adequate guidance to staff and managers for lien management.

OTR agrees that the Compliance Administration, Collection Division will benefit from revised policies and procedures that accurately capture the current processes for filing, submitting, and releasing liens, and provide the necessary guidance for employees and managers to follow in the overall lien administering process. As part of the annual policies and procedures review, which is currently underway, the Collection Division's identified subject matter experts, which include a Senior Revenue Officer, a Supervisory Revenue Officer and a Management Analyst, to update the existing lien policies and procedures to 1) fully document the current processes, 2) enhance the granularity of the steps to be taken by all responsible parties involved in each stage of the lien administering process, 3) provide "if/then" scenarios to assist with processing liens in complex situations, and 4) include flowcharts that demonstrate both the systemic and procedural components of the overall process. The document will also define monitoring and oversight tasks, such as reviewing returned mail reports and aging receivables for lien accounts, to ensure proper taxpayer notification and prioritize the collection of

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revenues owed to the District. The policies and procedures revisions will be completed by the team no later than September 13, 2019.

Recommendation 2: Develop a MITS returned mail report by mail type to alert management of lien notices that were returned due to bad address.

OTR agrees that the Compliance Administration, Collection Division requires the development of a MITS returned mail report by mail type, to assist with enhancing the efficiency of the lien process by alerting management of lien notifications that were not delivered due to bad addresses. The Compliance Deputy Director and Collection Division Chief are currently in the process of assessing the volume of returned mail, while OTR management, with the Compliance MITS subject matter experts for Collection and Audit have commenced working with the FAST staff to institutionalize the sample report provided to OIO. The team must review the report provided and identify any additional requirements and/or business rules needed to finalize the report. Testing will be performed by OTR management, lien specialists and program analysts to ensure that all pertinent data is present in the final report. A review process, as well as the steps to be followed when a lien notification has been returned in the mail, will be established and documented in the revised policies and procedures. The report will be available for use no later than September 30, 2019.

Recommendation 3: Provide adequate training to OTR staff on the proper administration of liens including the maintenance of accurate records.

OTR agrees that additional training is mandatory to ensure that all staff involved in the lien process are aware of, as well as following, the revised lien policies and procedures. The Compliance Administration, Collection Division management and the subject matter expert team are in the process of developing a comprehensive training plan for new hires, as well as those current employees identified as requiring refresher training. The curriculum will include fundamental and advanced training topics, one of which is the tax lien administration process. The training will be developed based upon the revised policies and procedures and will include modules that focus on determining when a lien should be filed, the automated lien process in MITS, and the importance of providing detailed and accurate system notes related to actions taken. The training will also include a module on the importance of fully operating within the guidelines established by the administration, as documented in the policies and procedures, and avoiding taking actions because of perceived "floor practices" or rapport with or trust of specific taxpayers. Compliance Management is also in the process of gathering and reviewing all facts related to the mishandling of liens 4027 and 6046. When this process has been completed, Compliance will in coordination with HR, take the appropriate action to address the responsible employees. This comprehensive lien training will be delivered to all impacted employees no later than September 20, 2019.

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Recommendation 4: Develop a lien receivable aging report to allow management to prioritize Collections.

OTR agrees that the development of a MITS lien receivable aging report will be beneficial to the Compliance Administration, Collection Division management staff, and as such, will direct the MITS subject matter experts for Collection to work with the FAST team to create an aging report based on criteria established by the Collection Division Chief, Supervisory Revenue Officer, Senior Revenue Officer, Management Analyst, and Lien Specialists. The Management Analyst for the Compliance Administration will establish a process for analyzing the lien receivables to identify trends and prioritize cases for assignment to Revenue Officers. The development of the report and implementation of the review and case assignment processes will be completed no later than September 30, 2019.

Recommendation 5: Analyze the variances between ROD CountyFusion and MITS lien records and resolve differences to ensure taxpayer records are accurate in MITS and ROD CountyFusion.

OTR agrees with the recommendation to analyze the variances between ROD CountyFusion and MITS lien records to ensure accuracy. The Compliance Management Analyst will work with the Compliance Deputy Director and Collection Division Chief to establish a partnership with ROD to gain access to the data necessary to make the comparison, and the Data Analyst will then perform the required analysis and report findings to the Collection Division Chief for resolution. The Collection Division policies and procedured subject matter experts will create and document a process for resolving any identified discrepancies and include it in the revised lien policies and procedures. Upon completion of the initial analysis, the Management Analyst will determine the frequency with which the comparison should take place and establish and document the permanent process. All policies and procedures revisions and new processes will be fully implemented no later than November 30, 2019.

Recommendation 6: Perform monthly reconciliations of liens recorded in MITS and ROD to determine that all liens from both systems agree.

OTR agrees with the recommendation to regularly reconcile the liens recorded in MITS to those recorded in ROD. The Management Analyst will work with the Compliance Deputy Director and Collection Division Chief to establish a partnership with ROD to gain access to the data necessary to make the comparison, and the Management Analyst will then perform the required analysis and report findings to the Collection Division Chief for resolution. The Collection Division policies and procedures subject matter experts will create and document the process for resolving any identified discrepancies and include it in the revised lien policies and procedures.

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Upon completion of the initial analysis, the Data Analyst will determine if monthly reporting is the appropriate frequency in which the reconciliations should take place and establish how OTR will document the permanent process. All policies and procedures revisions and new processes will be fully implemented no later than November 30, 2019.

If you have any additional questions, please contact Richard Dotson, Director of the Compliance Administration at 442-6863.

cc: Eva Liggins, Director of Operations
Richard Dotson, Director, Compliance Administration

