

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

**AUDIT OF INTERNAL CONTROLS OVER OTR'S  
COMPLIANCE ADMINISTRATION'S ADJUSTMENT OF  
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:** August 14, 2013

**SUBJECT:** Final Report on the Audit of Internal Controls over OTR's Compliance  
Administration's Adjustment of Taxpayer Accounts  
(Report No. OIO 13-01-07 OTR)

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This report summarizes the results of the Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over OTR's Compliance Administration's Adjustment of Taxpayer Accounts. This audit was included in the OIO FY 2013 Audit Plan and is part of our continuing oversight of the Office of Tax and Revenue (OTR) operations. The overall objectives of the audit were to determine whether effective internal controls are in place to ensure that every adjustment made by the Adjustment Unit was authorized, documented and approved, and information recorded in the Adjustment Unit's Inventory Log was accurate and complete.

OIO provided 5 recommendations to address the findings cited in the report. OTR concurred with the recommendations and provided target completion dates. OTR's corrective actions are responsive and meet the intent of the recommendations.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions or need additional information, please call me at (202) 442-8240 or your staff may contact Tisha Edwards, Senior Audit Manager at (202) 442-6446.

**Attachment**

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia  
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO  
Kathy Crader, Chief Risk Officer, OCFO  
Glen Groff, Director of Operations, OTR  
Bedell Terry, Director, Compliance Administration, OTR

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**AUDIT OF INTERNAL CONTROLS OVER OTR'S COMPLIANCE  
ADMINISTRATION'S ADJUSTMENT OF TAXPAYER ACCOUNTS**

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**AUDIT OF INTERNAL CONTROLS OVER OTR'S COMPLIANCE  
ADMINISTRATION'S ADJUSTMENT OF TAXPAYER ACCOUNTS**

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**ACRONYMS**

|      |                                   |
|------|-----------------------------------|
| CA   | Compliance Administration         |
| CID  | Criminal Investigation Division   |
| DCFO | Deputy Chief Financial Officer    |
| ITS  | Integrated Tax System             |
| OIO  | Office of Integrity and Oversight |
| OTR  | Office of Tax and Revenue         |
| TSG  | Tax Systems Group                 |

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## EXECUTIVE SUMMARY

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### OVERVIEW

The Office of Integrity and Oversight (OIO) conducted an audit of the Internal Controls over the Compliance Administration's Adjustment of Taxpayer Accounts. This audit was included in the FY 2013 Audit & Integrity Plan. Our overall audit objectives were to determine whether effective internal controls were in place to ensure that every adjustment made by the Adjustment Unit was authorized, documented and approved; and information recorded in the Adjustment Unit's Inventory Log was accurate and complete.

The audit covered the adjustments made by the Compliance Administration's Adjustment Unit for the period October 1, 2011 to December 31, 2012. We examined the Adjustment Unit's Inventory Log, tested the completeness of the Adjustment Request Forms, and reviewed documentation of adjustments made by the Adjustment Unit.

### CONCLUSIONS

The audit disclosed that internal controls over completeness of the Adjustment Request Forms and documentation of adjustments need improvement. Specifically, we found Adjustment Request Forms with no managerial approval; a revenue officer signed Adjustment Request Form as requester and approver; an Adjustment Unit employee signed as adjuster and approver; and some transactions were processed in ITS without authorized and approved Adjustment Request Forms. Additionally, we found missing information and data entry errors in the Adjustment Unit's Inventory Log.

We found the majority of the issues and deficiencies occurred during the first 3 months of the inception of the Adjustment Unit. This can be attributed to revisions to the inventory log Excel spreadsheets. Additionally, the TSG's completion of the systemic changes to the Compliance Administration employees' access profile was not adequately aligned with the start date of the operations of the Adjustment Unit.

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed 5 recommendations to the Deputy Chief Financial Officer DCFO/OTR for necessary actions to correct the described deficiencies. The recommendations focused on:

- Reinforcing the Adjustment Unit's Policies and Procedures regarding completeness of the Adjustment Request Forms and ensuring that every adjustment made by the Adjustment Unit is supported by an approved Adjustment Request Form.

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## EXECUTIVE SUMMARY

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- Reinforcing completeness and accuracy of information recorded in the Adjustment Unit's Inventory log to ensure that every request received by the Adjustment Unit is accurately recorded and all adjustment related information is completed.
- Performing periodic reviews of the Adjustment Unit's Inventory Log to ensure that all adjustment-related information is recorded and completed.

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

OIO received written response from OTR on July 24, 2013. OTR concurred with the recommendations and provided target completion dates. We consider OTR corrective actions are responsive and meet the intent of the recommendations. A copy of the complete response is included as **Exhibit B**.

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## INTRODUCTION

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### BACKGROUND

The Office of Tax and Revenue's (OTR) Compliance Administration (CA) established the Adjustment Unit on October 1, 2011, to address the issue of separation of duties previously identified by the external auditors. The Adjustment Unit is responsible for entering all assessments and adjustments for the Compliance Administration into the Integrated Tax System (ITS).

The Compliance Administration stated that the establishment of a "unified adjustment group" (unit), which comprised technically competent employees from the Audit and Collection Divisions will further increase internal controls and adjustment accuracy, centralize the adjustment and assessment processes, and greatly improve employee profile security by reducing all other employees' access to "Read Only."

The Adjustment Unit operates under the supervision of the CA's Criminal Investigation Division (CID) which is staffed as follows: a Unit Manager (a Supervisory Revenue Officer), a Senior Tax Auditor, a Senior Revenue Officer, a Clerical Assistant, and a staff of Revenue Officers and Tax Auditors. Staffing levels are flexible and are reviewed periodically and adjusted accordingly, based upon the volume of work. CA employees are rotated, at the CID Chief's discretion, to allow for staff changes.

The Adjustment Unit's written policies and procedures and Adjustment Request Form were developed in order to document the adjustment process and to ensure consistency and uniformity. The ITS User Classes and Profiles were modified, allowing only those employees within the Adjustment Unit to have the systemic ability to make financial adjustments to taxpayer accounts.

The Adjustment Unit established review protocols to verify the validity and accuracy of adjustments, detect unusual adjustment items, and ensure that only authorized personnel are performing adjustments in ITS. Each adjustment request is reviewed by the Adjustment Unit manager prior to processing the adjustment in ITS. The ITS Daily Adjustment Report is reviewed by the Adjustment Unit manager on a sample basis to verify the accuracy of the ITS account adjustments made by Adjustment Unit employees. Additionally, an Inventory Log was established to record all Adjustment Request Forms received, processed, completed or rejected by the Adjustment Unit.

Table 1 presents general statistics for the adjustments processed by the Adjustment Unit during the audit period October 1, 2011 to December 31, 2012.

## INTRODUCTION

**Table 1**  
**Adjustment Unit's General Statistics**

|  | <b>FY 2012</b> | <b>First Quarter<br/>FY 2013</b> |
|--|----------------|----------------------------------|
| No. of adjustments completed                               | 11,503         | 4,231                            |
| No. of adjustments rejected                                | 704            | 142                              |
| Average No. of requests received per month                 | 1,106          | 1,508                            |
| Average No. of employees request adjustments per month     | 84             | 86                               |
| Average No. of days to complete an adjustment (Cycle Time) | 13 days        | 17 days                          |

Source: The Adjustment Unit's Statistical Report for FY 2012 and First Quarter of FY 2013.

Table 2 presents a descriptive analysis of the types of transactions processed by the Compliance Administration during the audit period:

**Table 2**  
**Descriptive Analysis of Types of Transactions**

| <b>Transaction Type</b>             | <b>No. of Transactions*</b> |
|-------------------------------------|-----------------------------|
| Abatement                           | 6,134                       |
| Amended Adjustment                  | 538                         |
| Audit                               | 3,435                       |
| Corrected Line Item Adjustment      | 2,326                       |
| Credit Forward                      | 2,973                       |
| Federal Change Liability            | 2,981                       |
| Fully Reversed Line Item Adjustment | 2,609                       |
| In-Date Adjustment                  | 470                         |
| Liability Write-Off                 | 1,906                       |
| Tax Credit                          | 1,658                       |
| Transfer From                       | 3,239                       |
| Withheld Amount                     | 673                         |
| Others <sup>1</sup>                 | 1,723                       |
| <b>Total</b>                        | <b>30,665</b>               |

Source: Report generated by TSG for all adjustments made by the Compliance Administration for the period October 1, 2011 – December 31, 2012.

\*An adjustment may include more than one transaction.

<sup>1</sup> "Others" include delinquent, penalty assessment, penalty reverse, non-filer adjustment, garnish credit, offset forwarded, collection write-off, and collection write-off reversal.



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## INTRODUCTION

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### OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to determine whether:

1. Effective internal controls were in place to ensure accuracy, authorization, and documentation of Compliance Administration's adjustments of taxpayer accounts; and
2. Effective internal controls were in place to provide reasonable assurance that Compliance Administration maintained effective inventory management over adjustments of taxpayer accounts

In order to achieve these objectives, we reviewed the Adjustment Unit's policies and procedures, and the Inventory Log. We examined two samples based on random statistical methodology; the first was designed to test the Adjustment Request Forms against the information recorded in ITS to ensure that adjustments were made as requested, and the second was designed to test transactions recorded in ITS against the Adjustment Request Forms to ensure that every transaction was approved and authorized. Additionally, we interviewed and obtained information from the Adjustment Unit manager, senior staff, tax auditors, revenue officers, clerical assistant, and the Compliance Administration management analyst.

We relied on computer-processed data from ITS regarding the adjustments made by the Compliance Administration during the audit period. We did not perform a formal reliability assessment of the computer-processed data because the ITS system reliability tests were performed previously as part of the audit of the Comprehensive Annual Financial Report.

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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## FINDINGS AND RECOMMENDATIONS

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|                   |  |
|-------------------|--|
| <b>FINDING 1:</b> | <b>COMPLETENESS AND DOCUMENTATION OF<br/>ADJUSTMENTS</b> |
|-------------------|--|

### SYNOPSIS

The Compliance Administration's Adjustment Unit did not fully adhere to its policies and procedures regarding completeness of the Adjustment Request Forms and documentation of the adjustments. We found Adjustment Request Forms with no managerial approval and other forms where a revenue officer signed as requester and approver, and an Adjustment Unit employee signed as adjuster and approver. In addition, we found 11 transactions processed in ITS that did not have signed and approved Adjustment Request Forms. This condition occurred because the Compliance Administration management did not fully emphasize to the employees the significance of ensuring that every adjustment must be supported by a signed and approved Adjustment Request Form. As a result, the risk of processing unauthorized and undocumented adjustments in ITS was not reduced to an acceptable level.

### DISCUSSION

The Adjustment Unit's Policies and Procedures state that the Adjustment Unit enters into ITS all assessments and adjustments for the Compliance Administration. Each adjustment request must be reviewed by the Adjustment Unit manager prior to entry in ITS. Each revenue officer and tax examiner should complete the Adjustment Request Form, indicate the type of adjustment being requested, and submit the request with all of the supporting documentation to the manager for approval.

We tested two statistical samples: in the first test, we examined Adjustment Request Forms against the information recorded in ITS to ensure that adjustments were made as requested in the Adjustment Request Forms, and that the forms were signed and approved by the appropriate management. In the second test, we examined transactions recorded in ITS against the Adjustment Request Forms to ensure that every adjustment made in ITS had an authorized and approved Adjustment Request Form.

#### *First Test: Completeness of the Adjustment Request Form*

We examined a statistical sample<sup>2</sup> of 184 Adjustment Request Forms out of population of 15,734 adjustments processed and completed by the Adjustment Unit during the audit period (October 1, 2011 – Dec. 31, 2012). The purpose of this examination was to ensure that the Adjustment

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<sup>2</sup> The parameters for the statistical sample were: 95% confidence level, 5% materiality level, and 2% auditor's expectation of error.

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## FINDINGS AND RECOMMENDATIONS

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Request Forms were signed by the requester, approved by the responsible manager, signed by the adjuster and approved by the Adjustment Unit Manager or one of the two senior tax auditor/officers in the Adjustment Unit. Additionally, we examined whether the adjustment was made in ITS as requested in the Adjustment Request Form and a descriptive note was written in ITS for every adjustment.

We initially found 10 errors in the sample which were presented to the Adjustment Unit management. The Adjustment Unit management stated that 5 of these errors were systemic errors and out of the Adjustment Unit's control. The remaining 5 errors were accepted by the Unit and are presented below:

**Table 3**  
**Results of Testing Completeness of the Adjustment Request Forms**

| <b>Error Description</b>   | <b>No. of Errors</b> | <b>Date Processed</b>      |
|--|----------------------|----------------------------|
| Two Adjustment Request Forms showed that no one in the Adjustment Unit approved the adjustments.   | 2                    | 10/05/2011, and 12/07/2011 |
| An Adjustment Request Form showed that the adjuster and the approver were the same person and no managerial approval.  | 1                    | 11/10/2011                 |
| An Adjustment Request Form with no ITS notes to describe the nature and type of the adjustment.  | 1                    | 11/24/2011                 |
| An Adjustment Request Form showed that the requester and the approving manager were the same person, and the adjuster and the approver were the same person. | 1                    | 11/07/2012                 |
| <b>Total</b>   | <b>5</b>             |                            |

The sample error rate is 2.8% (5 errors divided by the sample size 184), and the projected statistical error rate in the entire population is 5.72%<sup>3</sup>. We concluded that internal controls over completeness of the Adjustment Request Forms need to be improved to ensure that every Adjustment Request Form is signed by the appropriate requester and adjuster, and approved by the appropriate management, and to ensure that a full descriptive note is written in ITS to describe the nature and type of the adjustment.

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<sup>3</sup> Since the projected statistical error rate in the entire population (5.72%) is greater than the materiality level (5%), we concluded that internal controls over the completeness of the Adjustment Request Form need improvement.

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## FINDINGS AND RECOMMENDATIONS

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The Adjustment Unit management agreed with this finding and took the necessary corrective actions to reinforce completeness of the Adjustment Request Forms. The Adjustment Unit management sent a memorandum to the staff to address these errors and re-emphasize the Adjustment Unit's Policies and Procedures regarding completing the Adjustment Request Forms.

### *Second Test: Documentation of Adjustments*

We obtained a report from the Tax Systems Group (TSG) of all the adjustments made by the Compliance Administration during the audit period (October 1, 2011 – Dec. 31, 2012). The report contained 29,854 transactions processed by the Adjustment Unit<sup>4</sup>.

We examined a statistical sample<sup>5</sup> of 259 transactions processed by the Adjustment Unit during the audit period and recorded in ITS. The purpose of this examination was to ensure that every transaction was properly authorized and supported by an approved Adjustment Request Form.

We initially found 37 unsupported transactions which were presented to the Adjustment Unit management. The Adjustment Unit personnel provided supporting documents for 26 transactions and explanations for 9 transactions. We accepted the evidence provided by the Adjustment Unit, and concluded that there were 11 transactions in the sample, which were processed and completed by the Adjustment Unit without an authorized and approved Adjustment Request Form. Table 4 presents these 11 transactions along with the explanation provided by the Adjustment Unit for 9 of the transactions.

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<sup>4</sup> The report generated by TSG contained 30,665 transactions, 29,854 of them were processed by the Adjustment Unit, and 811 transactions were processed by employees not with the Adjustment Unit and the Adjustment Unit manager. Some of these 811 transactions are money movement transactions, initiated prior to establishment of the Adjustment Unit.

<sup>5</sup> The parameters for the statistical sample were: 95% confidence level, 3% materiality level, and 1% auditor's expectation of error.

## FINDINGS AND RECOMMENDATIONS

**Table 4**  
**Results of Testing for Undocumented Transactions**

| Explanation Provided by the Adjustment Unit  | No. of Transactions |
|--|---------------------|
| Special Project for Revenue Accounting. Since these transactions were not Compliance requested adjustments, there were no Adjustment Request Forms | 4                   |
| These transactions are noted as "Mayoral Correspondence"   | 3                   |
| The transaction was requested by the Deputy Chief Financial Officer DCFO/OTR   | 1                   |
| The transaction was requested by the OTR Revenue Accounting Administration   | 1                   |
| Unexplained transactions. The Adjustment Unit did not provide explanation for the missing Adjustment Request Forms for these two transactions.     | 2                   |
| <b>Total</b>   | <b>11</b>           |

The sample error rate is 4.3% (11 errors divided by the sample size 259), and the projected statistical error rate in the entire population is 7.03%<sup>6</sup>. We concluded that internal controls over documentation of adjustments to taxpayer accounts need to be improved to ensure that for every adjustment there is a signed and approved Adjustment Request Form, irrespective of requester: the DCFO, or the District's Executive Office.

### *Other Related Matter*

Our examination of the report generated by the TSG on adjustments made by the Compliance Administration during the audit period revealed that there were 811 transactions processed by employees not with the Adjustment Unit and the Adjustment Unit manager who is not authorized to process adjustments. These transactions were processed during the first 3 months that the Adjustment Unit was established. The Adjustment Unit manager explained that some of the transactions he processed were for training purposes. We provided the Adjustment Unit management with a sample of 23 screen shots of these transactions from ITS.

The Adjustment Unit management reviewed these transactions and found that 10 were processed before the establishment date of the Adjustment Unit. The remaining 13 were processed after the inception date of the Adjustment Unit. The TSG explained to OIO that these 10 transactions were money movement transactions and originally processed in prior years before the audit period, and they were shown in the TSG report because the system keeps moving them from one tax year to another.

<sup>6</sup> Since the projected statistical error rate in the entire population (7.03%) is greater than the materiality level (3%), we concluded that internal controls over documentation of adjustments need improvement.

## **FINDINGS AND RECOMMENDATIONS**

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The Adjustment Unit management informed us that, although an e-mail was sent to employees to discontinue performing adjustments when the Adjustment Unit started, several employees performed some transactions during the initial months of the Adjustment Unit. The TSG's completion of the systemic changes to employees' access profile was not adequately aligned with the start date of the Adjustment Unit.

OIO concurred that some of these transactions were money movement transactions which were originally processed before the starting date of the Adjustment Unit. We recommended the Compliance Administration management to conduct sample tests of the 811 transactions and determine whether they were originally processed before or after the starting date of the Adjustment Unit, and to verify their integrity and legality.

### **RECOMMENDATIONS**

We recommend the DCFO, OTR:

1. Reinforce the Adjustment Unit's Policies and Procedures regarding the completeness of the Adjustment Request Forms to ensure that every form is signed by the requester, approved by the respective manager, signed by the adjuster, and approved by the Adjustment Unit manager.
2. Ensure that every adjustment made by the Adjustment Unit is supported by Adjustment Request Form regardless of the origin of the request.
3. Review the transactions processed after October 1, 2011, by employees who are not with the Adjustment Unit and the Adjustment Unit manager, to ensure that these transactions were legitimate and authorized.

### **MANAGEMENT RESPONSES AND OIO COMMENTS**

#### **Management Response (Recommendation 1)**

OTR concurred with the recommendation and stated that a memorandum will be issued to reinforce the policies and procedures related to the completion of the Adjustment Request Form. OTR provided target completion date for the corrective action of September 30, 2013.

#### **OIO Comment**

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

## **FINDINGS AND RECOMMENDATIONS**

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### **Management Response (Recommendation 2)**

OTR concurred with the recommendation and stated that a memorandum will be issued to other OTR administrations notifying them of the Compliance Administration's updated policy requiring all adjustment requests to be accompanied by a complete Adjustment Request Form, regardless of type or origin. OTR provided a target completion date for the corrective action of September 30, 2013.

### **OIO Comment**

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

### **Management Response (Recommendation 3)**

OTR concurred with the recommendation and stated that a review of a sample of the identified transactions will be conducted to determine if a more extensive review is necessary. OTR provided a target completion date of the corrective action of December 31, 2013.

### **OIO Comment**

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

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## FINDINGS AND RECOMMENDATIONS

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|                   |  |
|-------------------|--|
| <b>FINDING 2:</b> | <b>MANAGEMENT OF THE ADJUSTMENT UNIT'S INVENTORY LOG</b> |
|-------------------|--|

### SYNOPSIS

The Compliance Administration's Adjustment Unit did not maintain a complete and accurate Inventory Log. We found missing information and data entry errors especially during the first 3 months of the Adjustment Unit. This condition occurred because of lack of management's review of the Inventory Log on a daily basis as required by the Unit's Policies and Procedures. In addition, the Inventory Log went through many changes for the first 3 months of the Unit's operations until the final design of the Excel Sheets was approved. As a result, incomplete and inaccurate information recorded in the Inventory Log reduces its usefulness and reliability in decision making and data analysis.

### DISCUSSION

The Adjustment Unit's Policies and Procedures stated that the Adjustment Unit manager reviews the Adjustment Request Log on a daily basis to ensure that all requested adjustments have been logged in, and that all completed adjustments have been logged out. The manager also reviews the ITS Daily Adjustment Report to ensure that all adjustments appearing on this report are represented in the Log with supporting documentation.

We examined the Adjustment Unit's Inventory Log for the audit period (October 1, 2011 to December 31, 2012). The purpose of this examination was to ensure that all adjustments made by the Adjustment Unit were accurately recorded. The Inventory Log contains information such as: date of the request, requester's name, division, manager's name, taxpayer's name and ID, date completed or rejected, reasons for rejections, adjuster's comment and name, approver's name, date approved, and date logged out.

We found missing information in the Inventory Log such as the adjuster's name, the approver's name and the approved date. Most of the missing information occurred during the first 3 months of the Adjustment Unit start date. Table 5 presents statistics of missing information for the first 3 months.



## FINDINGS AND RECOMMENDATIONS

**Table 5**  
**Inventory Log's Missing Information**

| <b>Month</b>  | <b>Missing Adjuster's Name</b> | <b>Missing Approver's Name</b> | <b>Adjustments Not Logged Out</b> | <b>Missing Date Approved</b> |
|---------------|--------------------------------|--------------------------------|-----------------------------------|------------------------------|
| October 2011  | 30                             | 631                            | 21                                | 708                          |
| November 2011 | 5                              | 579                            | 4                                 | 589                          |
| December 2011 | 9                              | 466                            | 7                                 | 441                          |

Table 5, for October 2011, shows that the number of adjustments that were missing the approvers was 631, while the number of adjustments that were not logged out and returned to the requesters was 21. Therefore, the Inventory Log indicates that 610 adjustments were logged out and returned to the requesters without approval from the Adjustment Unit manager, even though these adjustments might have been approved already by the manager. Additionally, we found the following data entry errors in the Inventory Log:

- An approver was recorded as an adjuster, and the adjuster was recorded as approver for 4 adjustments.
- The adjuster and the approver was the same person for one adjustment.
- The Director of the Compliance Administration appeared as approver for 59 adjustments.
- A tax auditor (unauthorized approver) approved 14 adjustments during December 2012.

### RECOMMENDATIONS

We recommend the DCFO, OTR:

4. Reinforce completeness and accuracy of information recorded in the Adjustment Unit's Inventory log to ensure that every request received by the Adjustment Unit is accurately recorded and all adjustment related information is completed.
5. Perform periodic reviews of the Adjustment Unit's Inventory Log to ensure that all adjustment related information is recorded and completed.

## **FINDINGS AND RECOMMENDATIONS**

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### **MANAGEMENT RESPONSES AND OIO COMMENTS**

#### **Management Response (Recommendation 4)**

OTR concurred with the recommendation and stated that the Adjustment Unit's Desk Guide will be expanded to include a section on completeness and accuracy of information recorded in the Unit's Inventory Log. OTR provided a target completion date for the corrective action of September 30, 2013.

#### **OIO Comment**

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

#### **Management Response (Recommendation 5)**

OTR concurred with the recommendation and stated that an Inventory Log Review Control Test will be added to the Chief Risk Officer's (CRO) quarterly tests performed by the Compliance Administration. OTR provided a target completion date for the corrective action of September 30, 2013.

#### **OIO Comment**

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

## EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

| No. | Recommendations   | Type of Benefit  | Agency Reported Estimated Completion Date | Status <sup>7</sup> |
|-----|---|------------------|---|---------------------|
| 1   | Reinforce the Adjustment Unit's Policies and Procedures regarding the completeness of the Adjustment Request Forms to ensure that every form is signed by the requester, approved by the respective manager, signed by the adjuster, and approved by the Adjustment Unit manager. | Internal Control | September 30, 2013                        | Open                |
| 2   | Ensure that every adjustment made by the Adjustment Unit is supported by Adjustment Request Form regardless of the origin of the request.   | Internal Control | September 30, 2013                        | Open                |
| 3   | Review the transactions processed after October 1, 2011, by employees who are not with the Adjustment Unit and the Adjustment Unit manager to ensure that these transactions were legitimate and authorized.  | Internal Control | December 31, 2013                         | Open                |
| 4   | Reinforce completeness and accuracy of information recorded in the Adjustment Unit's Inventory log to ensure that every request received by the Adjustment Unit is accurately recorded and all adjustment related information is completed.                                       | Internal Control | September 30, 2013                        | Open                |
| 5   | Perform periodic reviews of the Adjustment Unit's Inventory Log to ensure that all adjustment related information is recorded and completed.  | Internal Control | September 30, 2013                        | Open                |

<sup>7</sup> This column provides the status of a 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 is not complete. "Closed" means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

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## EXHIBIT B: OFFICE OF TAX AND REVENUE'S RESPONSE

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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 *[Signature]*  
Deputy Chief Financial Officer

**DATE:** July 24, 2013

**SUBJECT:** Draft Report on the Audit of Internal Controls over OTR's Compliance  
Administration's Adjustment of Taxpayer Accounts (Report No. OIO 13-01-07  
OTR)

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Attached is the response to the draft report on the Audit of Internal Controls over OTR's Compliance Administration's Adjustment of Taxpayer Accounts (Report No. OIO 13-01-07 OTR).

Our written response includes suggested actions taken, planned target dates for completion, and proposed alternatives to correct noted deficiencies.

Should there be additional questions, please contact Bedell Terry, Director, Compliance Administration, at (202) 442-6863.

Attachment

cc: Glen Groff, Director of Operations, OTR  
Bedell Terry, Director, Compliance Administration, OTR

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## EXHIBIT B: OFFICE OF TAX AND REVENUE'S RESPONSE

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### Response to the Office of Integrity and Oversight's Audit of Internal Controls over the Compliance Administration's Adjustment of Taxpayer Accounts

#### Finding 1: Completeness and Documentation of Adjustments

The Compliance Administration's Adjustment Unit did not fully adhere to its policies and procedures regarding the completeness of the Adjustment Request Forms and documentation of the adjustments. The Compliance Administration management did not fully emphasize to the employees the significance of ensuring that every adjustment is supported by a signed and approved adjustment request form. As a result, the risk of processing unauthorized and undocumented adjustments in ITS was not reduced to an acceptable level.

We recommend the DCFO, OTR:

1. Reinforce the Adjustment Unit's Policies and Procedures regarding the completeness of the Adjustment Request Forms to ensure that every form is signed by the requester, approved by the respective manager, signed by the adjuster, and approved by the Adjustment Unit Manager.
2. Ensure that every adjustment made by the Adjustment Unit is supported by Adjustment Request Form regardless of the origin of the request.
3. Review the transactions processed after October 1, 2011, by employees who are not with the Adjustment Unit and the Adjustment Unit Manager, to ensure that these transactions were legitimate and authorized.

#### Response:

*Management agrees with this finding and will take the necessary corrective actions to (1) reinforce policies and procedures related to completion of the adjustment request forms, (2) ensure that every adjustment made by the unit is supported by a completed request form, regardless of the origin of the request, and (3) sample the transactions processed after 10/1/2011 by employees outside of the Adjustment Unit to ensure that the transactions were legitimate and authorized.*

1. *Management accepts this recommendation and will issue a memorandum to reinforce the policies and procedures related to the completion of the Adjustment Request Form. Requesting employees and managers within the divisions will be directed to complete request forms accurately and obtain all necessary approvals prior to submission. Adjusters in the unit will be instructed to reject any adjustment request forms that are not completed and properly approved. Reviewers within the unit will be reminded to sign all completed and approved adjustments. The policy will be updated in the unit's desk guide, and the anticipated date of completion for all corrective actions related to this recommendation is 9/30/2013.*
2. *Management accepts this recommendation and will issue a memorandum to the other OTR administrations notifying them of Compliance's updated policy requiring all adjustment requests to be accompanied by a completed Adjustment Request Form, regardless of type or origin. The policy will be updated in the unit's desk guide, and the*

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## EXHIBIT B: OFFICE OF TAX AND REVENUE'S RESPONSE

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### Response to the Office of Integrity and Oversight's Audit of Internal Controls over the Compliance Administration's Adjustment of Taxpayer Accounts

*anticipated date of completion for all corrective actions related to this recommendation is 9/30/2013.*

3. *OTR agrees with this recommendation and will review a sample of the identified transactions for accuracy and legitimacy, to determine if a more extensive review is necessary. The anticipated date of completion for the initial review is 12/31/2013.*

#### Finding 2: Management of the Adjustment Unit's Inventory Log

The Compliance Administration did not maintain a complete and accurate inventory log. We found missing information and data entry errors especially during the first three months of the Adjustment Unit. This condition occurred because of the lack of management's review of the inventory log on a daily basis as required by the unit's policies and procedures. In addition, the inventory log went through many changes for the first three months of the unit's operations until the final design of the Excel spreadsheet was approved. As a result, incomplete and inaccurate information recorded in the inventory log reduces its usefulness and reliability in decision making and data analysis.

We recommend the DCFO, OTR:

4. Reinforce completeness and accuracy of information recorded in the Adjustment Unit's inventory log to ensure that every request received by the Adjustment Unit is accurately recorded and all adjustment related information is completed.
5. Perform periodic reviews of the Adjustment Unit's inventory log to ensure that all adjustment related information is recorded and completed.

*The log is used for gathering the unit's performance statistics, and has served this purpose well. It is impossible to guarantee 100% accuracy in the volume of information being manually keyed; however, management does agree that there is room for improvement. OTR agrees with this finding and will take the necessary corrective actions to reinforce completeness and accuracy of information recorded in the inventory log, as well as perform periodic reviews of the log to ensure the same.*

4. *Management accepts this recommendation. The Adjustment Unit Manager will meet with the Clerical Assistant as well as those individuals who serve in a support capacity in her absence to reiterate the importance of accuracy and completeness when logging adjustment details. Additionally, the desk guide will be expanded to include a section on this topic. The anticipated date of completion for all corrective actions related to this recommendation is 9/30/2013.*
5. *Management accepts this recommendation and will have the CRO add an Inventory Log Review Control Test to the quarterly tests performed by Compliance. The anticipated date of completion is 9/30/2013.*