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

AUDIT OF THE OFFICE OF TAX AND REVENUE TRANSFER OF DEDICATED TAX REVENUES

OFFICE OF INTEGRITY AND OVERSIGHT

OIO No. 15-01-19a OTR

April 5, 2016

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

Office of Integrity and Oversight

TO: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

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

DATE: April 5, 2016

SUBJECT: Audit of the Office of Tax and Revenue Transfer of Dedicated Tax Revenues (OIO No. 15-01-19a OTR)

This final report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of the Office of Tax and Revenue Transfer of Dedicated Tax Revenues.

The objectives of the audit were to determine if transfers were: (1) proper, accurate and timely; and (2) made in accordance with District of Columbia regulations. Our audit identified that, overall, the controls over the Office of Tax and Revenue (OTR) transfers of dedicated taxes were functioning properly and transfers were materially accurate and properly supported. However, we noted certain deficiencies within the dedicated tax transfer processes that need improvement.

OIO provided four recommendations to correct the described deficiencies. OTR concurred with the recommendations and agreed to implement the necessary corrective actions. We consider the planned corrective actions to be 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, please contact me at (202) 442-6433 or Tisha Edwards, Interim Director, Internal Audit, at (202) 442-6446.

cc: Jeff DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy CFO and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Baraka Ondiek, Chief Improvement Officer, OCFO
Glen Groff, Director of Operations, OTR

**AUDIT OF THE OFFICE OF TAX AND REVENUE
TRANSFER OF DEDICATED TAX REVENUES**

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**AUDIT OF THE OFFICE OF TAX AND REVENUE
TRANSFER OF DEDICATED TAX REVENUES**

ACRONYMS

ABRA	Alcoholic Beverage Regulation Administration
DCFO	Deputy Chief Financial Officer
D.C.	District of Columbia
FY	Fiscal Year
HPTF	Housing Production Trust Fund
ITS	Integrated Tax System
MPD	Metropolitan Police Department
MTC	Multistate Tax Commission
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
ORA	Office of Revenue Analysis
OTR	Office of Tax and Revenue
PILOT	Payment in Lieu of Taxes
RAA	Revenue Accounting Administration
SOAR	System of Accounting and Reporting
TIF	Tax Increment Financing
TSG	Tax Systems Group
WMATA	Washington Metropolitan Area Transit Authority

EXECUTIVE SUMMARY

OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) is conducting an audit of the transfer of dedicated taxes by the Office of Tax and Revenue (OTR). This audit was included in the OIO's Fiscal Year (FY) 2015 Audit and Integrity Plan. The objectives of our audit are to determine if transfers were: (1) proper, accurate and timely; and (2) made in accordance with District of Columbia regulations.

The OTR is responsible for 8 dedicated tax transfers; therefore, we are conducting our audit in two phases. This audit report focuses on the following 4 dedicated tax categories: Healthy Schools Fund, Housing Production Trust Fund (HPTF), Alcoholic Beverage Regulation Administration (ABRA) Reimbursable Detail Subsidy, and Washington Metropolitan Area Transit Authority (WMATA) Operating Subsidy.

CONCLUSION

We concluded that overall, the controls over the transfers of dedicated taxes were functioning properly and transfers were materially accurate and properly supported; however, we noted the following deficiencies during the audit period:

- The ABRA Reimbursable Detail Subsidy was understated in FY 2013 and was not always transferred in accordance with policy;
- WMATA dedicated taxes for FY 2013 and FY 2014 were overstated and were not always transferred timely; and
- The HPTF dedicated taxes were not always transferred timely.

SUMMARY OF RECOMMENDATIONS

We provided four recommendations to the Deputy Chief Financial Officer, OTR, to improve the dedicated tax transfer processes. The recommendations focus on:

- Developing a formal policy for the consistent implementation of changes in laws;
- Setting an agreed-upon date for annual transfers.
- Revising the policies and procedures surrounding the WMATA year-end adjustment; and
- Revising the RAA policy to define specific timelines for the transfer of the WMATA dedicated taxes.

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

EXECUTIVE SUMMARY

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response to the draft report from OTR on March 24, 2016. OTR management concurred with all four recommendations and plans to take the necessary corrective actions to address the audit findings. We consider the planned corrective actions to be responsive and meet the intent of the recommendations. A copy of OTR's complete response is included as an Appendix to this report.

INTRODUCTION

BACKGROUND

The District of Columbia (the District) levies and collects taxes from various sources to fund the programs and services of the District. While the majority of the taxes collected are deposited in the District's general fund, there may be a particular purpose or program that requires special funding. These special programs and purposes are funded through a specific tax source referred to as a dedicated tax. Dedicated taxes are established by legislation and are funded from real property tax, general sales tax, cigarette taxes, gross receipts, parking and storage taxes, motor fuel tax, and deed recordation and transfer taxes. A dedicated tax is no longer available for general budgeting unless redirected by the Mayor and the Council.

According to the District of Columbia Dedicated Taxes Report produced by the Office of Revenue Analysis (ORA) issued August 2013, there were 15 dedicated tax categories in the District. Of the 15 dedicated tax categories, the Office of the Chief Financial Officer (OCFO) is responsible for 8 dedicated tax transfers. During FYs 2013 and 2014, the Office of Tax and Revenue (OTR), Revenue Accounting Administration (RAA), was responsible for the following dedicated tax transfers:

Table 1:
Dedicated Taxes transferred by the RAA
Summary of Dedicated Taxes for FYs 2013 and 2014

Dedicated Tax	Source of Revenue	Authority to Dedicate	FY 2013 Amount	FY 2014 Amount
ABRA Reimbursable Detail Subsidy Program	General Sales Tax	§47-2002	$ 460,000	$1,170,000
Ballpark Revenue Fund	Gross Receipts Tax, Sales Tax on Tickets and Goods Sold at Stadium, Public Utility Tax	§10-1601.02 and §47-2762	$55,528,678	$61,227,683
Healthy Schools Fund	General Sales Tax	§38-821.02	$4,266,000	$4,266,000
Highway Trust Fund	Motor Fuel Tax	§9-111.01 and §9-111.01a	$22,388,618	$22,805,147
Housing Production Trust Fund	Deed Recordation and Deed Transfer Taxes	§42-2802-2804	$53,218,890	$54,009,011
Tax Increment Financing/PILOT program	Real Property Tax and General Sales Tax	§2-1217.05	$65,512,411	$64,040,825
Washington Convention Center Fund	Sales Tax on Hotel Rooms, Restaurant Meals, Alcohol, Rental Cars and Prepaid Phone Cards	§47-2002.03	$104,041,241	$105,450,873
WMATA Operating Subsidy	Sales Tax on Parking or Storing of Motor Vehicles	§47-2002.07	$62,268,415	$65,349,671
Total Dedicated Taxes Transferred			**$367,684,253**	**$378,319,210**

Source: District of Columbia Dedicated Taxes Report and Revenue Accounting Administration

The RAA is responsible for ensuring that the transfers of tax revenues are performed in a timely manner, transferred to the appropriate agency, and are transferred in accordance with the law and internal policies and procedures. As part of this responsibility, RAA obtains reporting information from the various accounting systems to calculate the amount that is due and transfers the amount to the program on a monthly, quarterly, or annual basis.

This audit focuses specifically on the following four dedicated taxes and funds:

Alcoholic Beverage Regulation Administration (ABRA) Reimbursable Subsidy Detail Program:

The purpose of this program is to allow the ABRA to reimburse the Metropolitan Police Department (MPD) for 50 percent of the total cost of services provided by MPD officers who work on details at ABRA licensees. The revenue is taken from the sales tax on alcohol purchased for off-premises consumption. In May 2013, due to a change in legislation, the subsidy was increased from $460,000 to $1,170,000. The total transfer amount is completed in one transaction on an annual basis through a budgetary journal entry.

Healthy Schools Fund:

The purpose of this fund is to support improved school nutrition and health programs. The amount of $4,266,000 is deposited annually from general sales tax revenue. The total transfer amount is completed in one transaction on an annual basis through a budgetary journal entry.

Housing Production Trust Fund (HPTF):

The purpose of the fund is to provide assistance in housing production for targeted populations. The HPTF's primary source of revenue is a transfer of 15% of the deed recordation and transfer taxes collected annually. On a monthly basis, the RAA runs a report from the District's accounting systems to determine the deed recordation and transfer taxes collected for the period. The total collected is multiplied by 15% to determine the amount that is transferred to the HPTF. The RAA prepares the applicable journal entry to record the transfer and a request for a wire transfer is forwarded to the OCFO's Office of Finance and Treasury (OFT). The wire transfer is sent to the receiving agency by the OFT. In FY 2013, the transfer was made on a quarterly basis; however, in FY 2014, the transfer frequency was changed to monthly.

WMATA Operating Subsidy:

This dedicated tax is used to subsidize WMATA and is based on the parking and storage sales taxes collected at the rate of 18%. On a monthly basis, the RAA obtains a report from the Office of the Chief Information Officer (OCIO) Tax Systems Group (TSG) that reflects all of the sales tax collected specifically at the rate of 18% for the month. Parking and storage taxes collected from certain vendors are excluded from the WMATA Operating Subsidy transfer because they are part of Tax Increment Financing (TIF) and are earmarked for other purposes. The excluded vendors are: Gallery Place TIF, Mandarin Oriental TIF, Capitol Hill TIF (ended

INTRODUCTION

December 2013), and the Howard TIF (commenced August 2013). The parking and storage sales tax amounts from these specific vendors are 'carved out' or subtracted from the WMATA subsidy. RAA makes the transfer on a monthly basis to the WMATA operating subsidy through a budgetary journal entry.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives are to determine if transfers were: (1) proper, accurate, and timely; and (2) made in accordance with District of Columbia regulations.

In order to achieve these objectives, we conducted walkthroughs of the transfer processes; interviewed responsible personnel; reviewed the RAA Policies and Procedures, and applicable District laws and regulations. Additionally, we recalculated transfer amounts, verified transfers in the District's financial accounting system, and confirmed wire transfers with the Office of Finance and Treasury (OFT), where applicable. Our audit covered Fiscal Years 2013 and 2014. This report focused solely on four dedicated transfers: ABRA Reimbursable Detail Subsidy Program, Healthy Schools Fund, Housing Production Trust Fund, and the WMATA Operating Subsidy.

We relied on computer-processed data from the System of Accounting and Reporting (SOAR) and the Integrated Tax System (ITS). We did not perform a formal reliability assessment of the computer-processed data since independent auditors conducted a review of SOAR and ITS in the District's Comprehensive Annual Financial Report Audit for FY 2014.

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.

FINDINGS AND RECOMMENDATIONS

FINDING 1: ABRA REIMBURSABLE DETAIL SUBSIDY TRANSFERS

SYNOPSIS:

The ABRA Reimbursable Detail Subsidy legislation was amended in May 2013 to increase the transfer from $460,000 to $1,170,000. This change was effective in FY 2013; however, the RAA transferred the previously legislated amount of $460,000. The RAA did not increase the transfer amount in FY 2013 due to guidance received from the receiving agency. As a result, the FY 2013 subsidy was understated.

Additionally, we found that the FY2013 and FY2014 transfers were not completed by the date due per internal policies and procedures. This delay was due to a need for clarification from the receiving agency. As a result, the funds were not readily available to the program.

DISCUSSION:

ABRA Reimbursable Detail Subsidy Program

The ABRA Reimbursable Detail Subsidy Program was increased from $460,000 to $1,170,000 by D.C. Law 19-310 effective May 1, 2013. On July 30, 2013, OCFO Office of the General Counsel requested clarification from ABRA to confirm the amount that RAA should transfer and were advised by the agency that FY 2013 funding should remain at the previous amount of $460,000. Based on the guidance from the receiving agency, OTR transferred $460,000.

We found that the FY2013 transfer of $460,000 was completed on July 31, 2013 and the FY2014 transfer of $1,170,000 was completed on April 21, 2014. In both years OTR missed the established transfer date of March 31st. Specifically, the OTR Financial Policies and Procedures Manual section 35301512.30 Policies states, "that the OTR, through the Revenue Accounting Administration (RAA), transfers the revenue dedicated to the Reimbursable Detail Subsidy on an annual basis by the close of the sixth month of the fiscal year."

RECOMMENDATIONS:

We recommend the Deputy Chief Financial Officer (DCFO), OTR:

1. Establish a formal policy and guidelines for the implementation of legislative amendments.

FINDINGS AND RECOMMENDATIONS

Management Response (Recommendation 1):

OTR concurred with the recommendation and will establish guidelines and update the policies and procedures to include consultations with the General Counsel during implementation of new tax legislation as well as legislative changes to existing tax laws with a completion by April 30, 2016.

OIO Comment:

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

2. Coordinate with recipient agencies to select a mutually agreed-upon transfer date for annual transfers.

Management Response (Recommendation 2):

OTR concurred with the recommendation and has contacted the recipient agencies. Based upon their response, OTR will update the related policies and procedures to include the revised agreed-upon transfer date with a completion by March 31, 2016.

OIO Comment:

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

FINDINGS AND RECOMMENDATIONS

FINDING 2: WMATA OPERATING SUBSIDY TRANSFERS

SYNOPSIS:

We found that the overall transfer amounts for the WMATA Operating Subsidy for the audit period was overstated. The overstatement was due to the inclusion of TIF carve-out payments that may have been received late or were not previously captured in the month due. The inclusion of TIF sales tax collections in the transfer to WMATA resulted in an overstatement of $72,550.60.

Additionally, we found that the transfers in FYs 2013 and 2014 did not always occur timely in accordance with the internal policies and procedures. This delay was due to staffing changes and delay in receipt of report documentation. As a result, the funds were not readily available to the program.

DISCUSSION:

WMATA Operating Subsidy Transfer

Accuracy of the WMATA Transfer

The WMATA overall transfer amounts for FYs 2013 and 2014 were overstated by $72,550.60 due to RAA's inclusion of previously unrecognized receipts from excluded TIF vendors in the year-end reconciliation. On a monthly basis, the RAA obtains a report from the Office of the Chief Information Officer (OCIO) Tax Systems Group (TSG) that reflects all of the on-time parking and storage sales tax collected for the month. Parking and storage taxes collected from certain vendors are excluded from the WMATA Operating Subsidy transfer because they are part of a Tax Increment Financing (TIF) and are earmarked for other purposes. The excluded vendors are: Gallery Place TIF, Mandarin Oriental TIF, Capitol Hill TIF (ended December 2013), and the Howard TIF (commenced August 2013). The parking and storage sales tax amounts from these specific vendors are 'carved out' or subtracted from the WMATA subsidy on a monthly basis as long as they are reflected in the monthly sales report.

The RAA performs a year-end reconciliation of the WMATA transfer amount to ensure all late payments, partial payments and adjustments are also captured in the overall transfer amount. To capture this activity, the RAA relies on the Multistate Tax Commission (MTC) report. The MTC report reflects all sales taxes collected by month and tax rate. To reconcile the transfer, the RAA

FINDINGS AND RECOMMENDATIONS

transfer totals for each month. Based on the amounts reported, an adjustment is made to increase or decrease the overall WMATA transfer amount for the year.

OIO recomputed the carve out for FYs 2013 and 2014 using the SAND Data Warehouse[1] to determine the total sales taxes collected from the excluded TIF vendors for the audit period and compared our results to the amounts reported by RAA. We identified the following differences:

Table 2
WMATA TIF Carve Outs
FYs 2013 and 2014

2013 Summary of Sales Tax Collections at 18%			
Carve Out	**Per OIO**	**Per RAA**	**Difference**
Gallery Place TIF Carve Out	$ 693,721.49	$ 693,721.49	-
Mandarin Oriental TIF Carve Out	167,309.38	167,309.38	-
Capitol Hill TIF Carve Out	66,038.02	66,038.02	-
U Street TIF Carve Out	3,423.83	989.54	$ 2,434.29
Total Carve Out	**$ 930,492.72**	**$ 928,058.43**	
2013 WMATA Transfer Overstatement			**$ 2,434.29**
2014 Summary of Sales Tax Collections at 18%			
Gallery Place TIF Carve Out	$ 680,717.69	$ 680,717.69	-
Mandarin Oriental TIF Carve Out	160,670.52	132,414.78	$ 28,255.74
Capitol Hill TIF Carve Out	9,244.80	9,244.80	-
U Street TIF Carve Out	51,775.59	9,915.02	$ 41,860.57
Total Carve Out	**$ 902,408.60**	**$ 832,292.29**	
2014 WMATA Transfer Overstatement			**$ 70,116.31**
Total for Audit Period			**$ 72,550.60**

As a result of the inclusion of these amounts, the WMATA Operating Subsidy was overstated.

Timeliness of the WMATA Transfer

We also found that the revenue dedicated to the WMATA Operating Subsidy was not transferred timely during FYs 2013 and 2014. The Office of Tax and Revenue (OTR) WMATA Operating Subsidy Financial Policies and Procedures Manual (effective September 30, 2009) Section 35301018.30 Policies states, "that the OTR, through the Revenue Accounting Administration (RAA), transfers the revenue dedicated to WMATA on a monthly basis, no later than 3 days following the receipt of the Sales and Use report from the Office of the Chief Information Officer (OCIO), Tax Systems Group (TSG), within the Office of the Chief Information Officer." Although the policy and procedures were silent on the actual receipt date of the monthly report; RAA staff indicated that the report is usually received in the first week of the month; therefore,

[1] The SAND Data Warehouse is the data warehouse for all Integrated Tax System (ITS) activity.

FINDINGS AND RECOMMENDATIONS

OIO used the conservative due date of the 10th of the month to determine the timeliness of the transfer. The specific delays are shown in Table 3:

Table 3
Timeliness of WMATA Transfers
FYs 2013 and 2014

Sales Tax Period	Month of Receipt	Transfer Amount	Journal Entry Effective Date	Due Date (estimated)	Lapsed Time (in business days)
FY 2013					
October 2012	November 2012	$5,061,827.00	2/25/2013	12/10/2012	56
November 2012	December 2012	$4,919,722.00	2/25/2013	1/10/2013	33
December 2012	January 2013	$5,083,331.00	2/25/2013	2/10/2013	11
January 2013	February 2013	$4,870,957.00	3/19/2013	3/10/2013	7
September 2013	October 2013	$5,130,701.72	11/15/2013	11/10/2013	5
FY 2014					
October 2013	November 2013	$5,090,819.00	1/13/2014	12/10/2013	25
November 2013	December 2013	$5,038,191.00	1/16/2014	1/10/2014	5
September 2014	October 2014	$5,045,248.80	11/17/2014	11/10/2014	6

The transfer delays were attributed to a staffing change in FY 2013. FY 2014 delays were due to delays in receiving the required documentation to complete the transfer.

RECOMMENDATIONS:

We recommend the Deputy Chief Financial Officer (DCFO), OTR:

3. Revise the RAA procedures related to the WMATA year-end reconciliation to include analysis of the year-end TIF carve-out amounts to ensure all TIF-related parking receipts are properly subtracted from the overall WMATA transfer amount.

Management Response (Recommendation 3):

OTR concurred with the recommendation and will update the policies and procedures related to the WMATA year-end reconciliation with a completion date of April 30, 2016. OTR will reduce the FY 2016 transfers to WMATA by the $72,550.60 overstatement.

OIO Comment:

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

FINDINGS AND RECOMMENDATIONS

4. Revise the RAA policy to define specific timelines for the transfer of the WMATA dedicated taxes.

Management Response (Recommendation 4):

OTR concurred with the recommendation and will update the policies and procedures effective FY 2016 with a completion date of April 30, 2016.

OIO Comment:

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

FINDINGS AND RECOMMENDATIONS

FINDING 3: HOUSING PRODUCTION TRUST FUND TRANSFERS

SYNOPSIS

We found that the RAA did not always transfer funds to the Housing Production Trust Fund (HPTF), in the timelines outlined in OTR policies and procedures. The HPTF transfer delays were attributed to RAA staffing changes. As a result of these delays, the dedicated taxes were not readily available to the recipient agency which could delay the mission of the program.

DISCUSSION:

The revenue dedicated to the Housing Production Trust Fund (HPTF) was not transferred in a timely manner during the first half of FY 2013. During our review, we found that transfers of revenue in FY 2013 occurred more than 30 days following the end of the fiscal quarter which did not comply with the Office of Tax and Revenue (OTR) policies and procedures. The OTR Housing Production Trust Fund Financial Policies and Procedures Manual Section 35301020.30Policies effective January 1, 2010, states, " that OTR, through the Revenue Accounting Administration (RAA), transfers the revenue dedicated to the HPTF on a quarterly basis, not later than 20 days following the end of the fiscal quarter."

The specific delays are identified in Table 4:

Table 4
Delays in HPTF Transfers

FY13	Transfer Amount	Journal Entry Effective Date	Due Date (per policies & procedures)	Lapsed Time (in business days)
October-12	$4,449,296.33	4/8/2013	1/20/2013	56
November-12	$2,708,674.41	4/8/2013	1/20/2013	56
December-12	$146,168.04	4/8/2013	1/20/2013	56
February-13	$3,188,134.29	6/13/2013	4/20/2013	39
March-13	$1,843,067.29	6/13/2013	4/20/2013	39

RAA officials indicated this delay was due to a change in the staff responsible for the transfer. Once the new staff person was acclimated to the process, the delay in transfers was resolved. During FY 2014, OTR revised the HPTF policies and procedures to change the transfer frequency from quarterly to monthly. Based on our review of the FY 2014 transfers, it appears

FINDINGS AND RECOMMENDATIONS

that the delay was resolved. RAA updated the financial policies and procedures on April 30, 2015 to formally document the change in the transfer frequency; therefore, we do not recommend any further action be taken.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status[2]
1	Establish a formal policy and guidelines for the implementation of legislative amendments.	Internal Control	April 30, 2016	Open
2	Coordinate with recipient agencies to select a mutually agreed upon transfer date for annual transfers.	Internal Control	March 31, 2016	Closed
3	Revise the RAA procedures related to the WMATA year-end reconciliation to include analysis of the year-end TIF carve-out amounts to ensure all TIF-related parking receipts are properly subtracted from the overall WMATA transfer amount.	Internal Control	April 30, 2016	Open
4	Revise the RAA policy to define specific timelines for the transfer of the WMATA dedicated taxes.	Internal Control	April 30, 2016	Open

[2] 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 address the condition.

APPENDIX: OFFICE OF TAX AND REVENUE 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: Timothy Barry, Executive Director
Office of Integrity and Oversight (OIO)

FROM: Stephen M. Cordi, Deputy Chief Financial Officer
Office of Tax and Revenue

THRU: Bert Molina, Director
Revenue Accounting Administration

DATE: March 24, 2016

SUBJECT: Responses to OIO's Findings and Recommendation on the Audit of OTR's Transfer of Dedicated Tax Revenues (Part 1)

Finding 1: ABRA Reimbursable Detail Subsidy Transfers

OIG Recommendations #1 and 2:

1) **Establish a formal policy and guidelines for the implementation of legislative amendments.**

2) **Coordinate with recipient agencies to select a mutually agreed-upon transfer date for annual transfers.**

OTR Response:

1. We concur with the auditor's comments and recommendations and the following action will be taken to mitigate the process risks. We'll establish guidelines and update our policies and procedures to include consultations with the General Counsel during implementation of new tax legislation as well as legislative changes to existing tax laws. This will provide a clearer interpretation of tax legislation to assure that OTR implementation and processing of transfers is in compliance with the spirit of the law.

   Completion Date: April 30, 2016

   Responsible Party: Vanessa Faulkner, Senior Advisor for Accounting Operations.

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APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE

2. We concur with the auditor's comments and the following corrective actions have been taken; The Agency Fiscal Officers of the recipient agencies (Alcoholic Beverage Regulation Administration and Office of the State Superintendent of Education) have been contacted via e-mail regarding the preferable date of the respective annual transfers. Based upon their response the related policies and procedures will be updated to include the revised completion date. The change will be effective FY2017. In the event, the preferred date has not passed the Revenue Accounting Administration will complete the FY2016 transfer, accordingly.

   Completion Date: March 31, 2016

   Responsible Party: Vanessa Faulkner, Senior Advisor for Accounting Operations

Finding 2: WMATA Operating Subsidy Transfers

OIG Recommendations #3 and 4:

3) **Revise the RAA procedures related to the WMATA year-end reconciliation to include analysis of the year-end TIF carve-out amounts to ensure all TIF-related parking receipts are properly subtracted from the overall WMATA transfer amount.**

4) **Revise the RAA policy to define specific timelines for the transfer of the WMATA dedicated taxes.**

OTR Response:

3. We concur with the auditor's findings and we plan to implement the following corrective actions to mitigate these risks:

   - As part of the monthly and year-end reconciliation, the Senior Advisor for Accounting Operations will utilize an existing SAND report that reflects the sales tax receipts for the vendors (by tax rate) within the TIF area. This report is run monthly and annually to ensure that all payments received on behalf of the TIF are transferred to the TIF bank account for the debt service payments. The report enables us to capture TIF receipts that are erroneously sent to the Sales and Use Exception account and subsequently, not reflected on the monthly sales report. As such, we have determined that the referenced SAND report along with the MTC report will be used at year-end to ensure the accuracy of the transfer to WMATA. As a result of this change, the policies and procedures will be updated accordingly.

APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE

- The FY16 transfers to WMATA will be reduced by $72,550.60 due to the overstatement in transfers for FY13 and FY14.

4. We concur with the auditors and will update the policies and procedures to specify the receipt date of the monthly parking tax receipts report compiled by TSG and revise the subsequent, transfer date accordingly. The monthly report is provided to RAA by the 5th of the month thus, the transfer should occur no later than 7 business days following the receipt of the report. This timeframe will take in consideration of any unforeseen delays on the part of both administrations. This change will be effective FY16.

   Completion Date: April 30, 2016

   Responsible Party: Vanessa Faulkner, Senior Advisor for Accounting Operations

Finding 3: Housing Production Trust Fund Transfers

OIG Observation #5:

5) **We found that the RAA did not always transfer funds to the Housing Production Trust Fund (HPTF), in the timelines outlined in OTR policies and procedures. The HPTF transfer delays were attributed to RAA staffing changes. As a result of these delays, the dedicated taxes were not readily available to the recipient agency which could delay the mission of the program.**

OTR Response:

- We concur with the auditor's determination. The delays in the aforementioned periods were attributed to a staffing change. This risk was mitigated by updates to the policies designed to accelerate the transfer frequency, from quarterly to monthly. This will ensure consistency in the timely performance of core responsibilities despite changes in staffing.

If you have any additional questions, please contact Bert Molina, Director, Revenue Accounting Administration, at 442-6448.