



Office of Integrity & Oversight

**Government of the District
of Columbia, Office of the
Chief Financial Officer**

June 21, 2017

**AUDIT OF INTERNAL
CONTROLS OVER THE
LOWER INCOME
HOMEOWNERSHIP
TAX ABATEMENT
PROGRAM**



June 2017

Highlights

Highlights of Report 17-01-03 OTR, a report to the OTR Deputy Chief Financial Officer

Why OIO Did This Audit

The Office of Integrity and Oversight performed this audit of the Office of Tax and Revenue (OTR) Lower Income Homeownership Tax Abatement Program to ensure that controls were adequate in the granting of the abatement and removal from the program. This audit was included in the OIO FY 2017 Audit Plan.

What OIO Recommends

We provided the Deputy Chief Financial Officer, OTR, with 4 recommendations that centered on strengthening internal controls over the program administration.

Recommendations included:

- Performing periodic reviews of applications to ensure they are complete.
- Placing the updated income charts in a central location and provide timely updates to staff to ensure that the staff is working with the most current information.
- Developing Standard Operating Procedures for the administration and monitoring of the Program.
- Finalize Revision of RoD Form 9 “Lower Income Homeownership Tax Abatement Program”.

AUDIT OF INTERNAL CONTROLS OVER THE LOWER INCOME HOMEOWNERSHIP TAX ABATEMENT PROGRAM

What Did OIO Find

We found that the Assessment Services Division Special Programs Unit (SPU) is effective in monitoring this program for compliance. They have a process in place to ensure that all households under the program are subject to audit. Our audit did find that there are some improvements that can be made in administering the program to further improve internal controls. Specifically, we noted the following:

RoD Application Process

We identified errors in 22 of the 60 applications reviewed. While the errors identified did not lead to the improper granting of the exemption, improvements can be made. The most common error was the use of the incorrect qualifying income chart.

Inconsistencies in Income Limit Waivers

We found inconsistent treatment of properties that exceeded the maximum income limit in a given year. Specifically, our audit identified properties that exceeded the maximum income limit but were not removed from the Program. While the SPU provides some latitude, there are no formal written procedures for granting waivers to properties that exceed the maximum income limit.

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

A handwritten signature in blue ink that reads "Timothy Barry".

DATE: June 21, 2017

SUBJECT: Audit of Internal Controls over the Lower Income Homeownership Tax Abatement Program (17-01-03 OTR)

This report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over the Lower Income Homeownership Tax Abatement Program. This audit was included in the OIO FY 2017 Audit Plan as part of our regular oversight and monitoring of OTR operations.

OIO provided four recommendations to the Deputy Chief Financial Officer, OTR, for actions necessary to correct the described deficiencies. OTR provided a written response to the draft report on June 9, 2017 concurring with all four recommendations. OTR also stated that they plan to take corrective actions to address the audit finding. The planned corrective actions are responsive and meet the intent of the recommendations. A copy of the OTR response, in its entirety, is included as an Appendix to this report.

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, Director of Internal Audit, at (202) 442-6446.

cc: Jeff DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Baraka Ondiek, Continuous Improvement Officer, OCFO
Eva Liggins, Interim Director of Operations, OTR
Vladimir Jadrijevic, Director of Real Property Tax Administration, OTR

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Abbreviations and Acronyms

ASD	Assessment Services Division
DC	District of Columbia
DCFO	Deputy Chief Financial Officer
EDZ	Economic Development Zone
FY	Fiscal Year
HPAP	Home Purchase Assistance Program
HUD	Housing and Urban Development
ITS	Integrated Tax System
LIHTA	Lower Income Homeownership Tax Abatement
MITS	Modernized Integrated Tax System
OCFO	Office of the Chief Financial Officer
OTR	Office of Tax and Revenue
OIO	Office of Integrity and Oversight
RoD	Recorder of Deeds
SOP	Standard Operating Procedures
SPU	Special Programs Unit

Background

The Lower Income Homeownership Tax Abatement Program (the Program) was established by D.C. Law 5-31 effective October 8, 1983. The purpose of the Program is to expand homeownership opportunities for lower income families to the maximum extent possible at the lowest possible cost to the District. To qualify for the Program, the household income shall not exceed 120 percent of the lower income guidelines established pursuant to 42 U.S.C. § 143f, for the Washington Standard Metropolitan Statistical Area, and adjusted yearly by historic trends of that median, and as further may be adjusted by an interim census of District incomes by local or regional government agencies.

The Recorder of Deeds (RoD) develops maximum qualifying income charts for the Program and for households located in designated Economic Development Zones (EDZ). The current income limits for the Program are \$63,745 to \$113,850 for households located within an EDZ, the limits for non-EDZ households are \$58,980 to \$111,120 depending upon the number of people in the household. Additionally, the purchase price of the property cannot exceed \$439,160, and must be the principal place of residence of the owner.

The application for the Program is usually submitted to the RoD for approval at the same time the deed is submitted for recordation. RoD will review the application and the documentation supporting the applicant's yearly income. If the application is approved, the lower income homeowner shall be exempt from deed transfer and recordation taxes. In addition, the household will be exempt from property taxes for a five year period which will begin on the first October 1st following the date the deed was recorded and remain in effect for a 5 year period. For example, if the deed was recorded on December 10, 2010, the tax exempt period would begin October 1, 2011 and remain in effect until September 30, 2016 (Property tax years 2012 through 2016).

Households in the program are subject to audits throughout the 5 year period to ensure the household remains compliant with Program requirements. Typical reasons why households are removed from the Program is the property is sold, the house is no longer the owner's principal residence, or the household income limit is exceeded. Once a household is removed it can't be reinstated unless the owner can produce evidence that the reason for removal was not valid.

In March of 2014, Program oversight was transferred from the Homestead Unit to the Special Programs Unit (SPU) of the Assessment Services Division (ASD). The SPU hired an auditor who has responsibility for performing compliance audits of households in the Program; however, the actual audits did not begin until the first quarter 2015. To effectively manage its oversight review, the SPU separated the properties into groups corresponding to the year the household entered the program.

Objectives, Scope, and Methodology

The objective of the audit was to determine if properties receiving the exemption were in compliance with the household income requirements and provisions of the legislation.

To achieve our objective, we conducted a walkthrough of the SPU's audit process, reviewed Program applications and associated supporting documentation; we interviewed RoD and SPU personnel, and reviewed tax records of selected households within the Program. The audit covered households in the program from October 1, 2012, through September 30, 2016.

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.

Finding: Improvements are Needed in the Lower Income Homeownership Tax Abatement Program

Controls over the Administration of the Lower Income Homeownership Tax Abatement Program (the Program) were generally effective to ensure participants were compliant with Program requirements. However, we noted some documentation issues in the application approval process; specifically, households that were omitted from the compliance review process and inconsistencies in approving waivers for households that slightly exceeded the income limits.

Recorder of Deeds Application Process

To determine if the Program was operating as intended and internal controls were in place and effective, we reviewed the application process managed by the RoD and SPU's monitoring program. To perform our audit, the ASD provided OIO with a list of 1,178 households that were in the Program as of October, 2016. Using ACL software, we developed a sample of 60 households from the population¹.

Approved applications are scanned into the RoD CountyFusion database. OIO examined each application for completeness and accuracy. We identified errors in 22² of the 60 applications. The exceptions were as follows:

Table 1: Application Exceptions

Exception	Number
Incorrect qualifying income chart used	14
EDZ chart used for a non-EDZ property	3
Current Year Income Statement not provided	1
Prior Year Tax Returns not provided	2
Qualifying income amount was not in compliance to the income chart.	1
Applicant's income exceeded the maximum allowable income.	1
Signature page of the application missing	1
Total	23

The use of the incorrect qualifying income chart may be attributed to the fact that updates to the maximum qualifying income are not made consistently. The income charts are prepared by the RoD based on information from the Sales Ratio report and the HUD User home data which sets the fair market rents. For the EDZ charts, the HPAP Homebuyer Assistance Table is the basis for the calculation.

¹ The parameters for the sample selection were population 1,178, Confidence 95 percent, precision 5 percent and error rate 0.

² There were 22 applications with discrepancies but 23 discrepancies are listed because 1 application had 2 errors: used the EDZ chart on a non-EDZ property and did not provide prior year tax return.

We requested the SPU provide previous versions of the income charts covering the current 5 year period. There were 7 updates to the non-EDZ charts with the following effective dates: May 2010, May 2011, December 2011, December 2012, July 2014, December 1, 2015, and December 1, 2016. There were 4 updates to the EDZ charts with the following effective dates: August 2010, May 2012, July 2014, and December 1, 2015. The multiple updates at varying dates may cause confusion for the RoD employees required to verify the income of applicants.

The other application errors noted may be attributed to inconsistent review of the applications. In 2014, the RoD hired an employee who is currently the primary person to approve the applications for the Program. As a result, the review process has shown substantial improvement. Of the 9 exceptions related to missing documentation, incomplete or otherwise inaccurate applications, only 1 of these exceptions occurred in 2015.

Special Projects Unit (SPU) Compliance Audit Program

To determine the effectiveness of the SPU Compliance Audit Program, OIO verified the completeness of the SPU Audit list and reviewed the SPU audit process for determining if properties should remain in the Program.

Accuracy of the SPU Audit List

The SPU separates the properties by the year that the property became eligible for the Program. To determine the completeness and accuracy of the SPU Audit list, OIO matched the SPU 2015-2019 Group Audit list of 252 properties, to the Assessment Services Division (ASD) 2015-2019 list of 252 properties. OIO used the 2015-2019 Group as this was the period that the SPU was currently auditing. Using ACL software, we compared the SPU Audit list to the ASD Audit list, by square and lot, and identified exceptions.

Specifically, OIO identified 7 properties that were not included on the SPU audit list. For these properties we reviewed the household income and evidence of domicile in ITS to determine if the properties met the Program requirements. We noted five of the seven properties did not meet the Program requirements. During the course of the audit, SPU resolved the exceptions identified in Table 2:

Table 2: SPU Audit List Exceptions

Exception	Removed from Program	Income Limit Waiver	Domicile Evidence Provided	Total
Exceeded the Maximum Income Limit	2	1		3
No evidence of Domicile			2	2
Total	2	1	2	5

Source: OIO

SPU could not determine why the seven properties identified were not included in the original listing. The initial list was developed by an automated download by ASD. The SPU audit list is now updated manually as the RoD approves the application by property tax year. The SPU added the seven properties to the audit listing and they will be included in future compliance reviews. The revised procedures implemented in March 2014 after SPU took over the Program, should prevent LIHTA households from being excluded from the SPU compliance audit listings.

Income Limit Waivers were Granted Inappropriately

The SPU audits the properties that are admitted in the Program to ensure that they meet the requirements of the Program. The process includes, verifying the exemption status in ITS, comparing the ownership and other pertinent information in ITS to the application contained in CountyFusion, reviewing the tax returns in the Integrated Tax System (ITS) and the Modernized Integrated Tax System (MITS), and verifying the residency in LexisNexis, an online investigative software tool.

To determine the effectiveness of the SPU audit process, OIO used the 60 households in our application sample. Forty of the properties included in our sample were audited by the SPU³. OIO verified the exemption status in ITS, checked the audit list results, reviewed the tax returns in ITS and MITS, and verified the residency in CLEAR, an online investigative software. We identified 1 property that exceeded the maximum income limit but was not removed from the program.

After noting this issue, the OIO randomly selected 8 properties from the SPU audit list that were notated on the listing as over the max-limit, but were not removed from the Program. We identified 2 additional households that were well over the maximum income limit by \$8,280 and \$12,653, and were not removed from the program.

The exceptions noted were due to inconsistencies in the administration of the income limit waiver. If a household slightly exceeds the income limit for one year and has consistently been below the limit in other years, the SPU may waive the year that went over the max-limit and allow the household to remain in the program. The manager stated that formal written procedures do not exist, but stated he has the authority to waive overages up to \$1,200 dollars. The SPU manager stated that, "If a property exceeds the limit in consecutive years the exemption is ended regardless of the amount."

When we discussed the results with the SPU, two properties were removed from the Program during our audit. The third property was not removed. Per the SPU manager, there was no firm policy established on removal of an exemption if the taxpayer was over the income limit in the first year, but under the limit in the following years. The property's exemption expires on September 30, 2017.

³ Of the remaining 20 properties, 19 were new to the program and will be audited after the 2017 tax period and 1 was a Co-op which is not audited by the SPU.

Communication with Program Participants

The Manager of the SPU informed us that taxpayers are often unaware of the compliance review and are taken by surprise when they are removed from the program for exceeding income limits, stating that they thought once approved they had the tax exemption for the five year period. The Manager stated that the SPU and RoD are planning to update the RoD Form 9 “Lower Income Homeownership Program” and add a section titled, “Maintaining Exemption Eligibility.” The SPU plans to send an annual reminder to eligible taxpayers in the program that they are subject to annual audit and the exemption will be removed if the household is not compliant with the Program requirements. The SPU and OTR General Counsel have been drafting this statement since November 2016. Completion of this document will allow for the implementation of the planned annual notification process.

Recommendations

We recommend the Deputy Chief Financial Officer, OTR:

1. Place the updated income charts in a central location and provide timely updates to staff to ensure that the staff is working with the most current information. Determine the feasibility of establishing a standard date to determine annual income limits.
2. Perform periodic quality reviews of applications to ensure documentation required is included in the package.
3. Develop a written Standard Operating Procedures (SOP) for the SPU’s compliance reviews of the Lower Income Homeownership Tax Abatement Program. The SOP should at a minimum document procedures and limitations regarding waivers for exceeding income limitations, establishing end dates for the exemption when the household is no longer compliant with Program requirements, and procedures for handling households that fail to file District Income Taxes.
4. Finalize the revision of RoD Form 9 “Lower Income Homeownership Tax Abatement Program” so that all program participants will be aware of the requirements to remain eligible for the exemption and that they are subject to annual audit.

Management Responses and OIO Comments

Management Response (Recommendation 1):

OTR concurred and stated that it will maintain a standard date for updating the annual income limits no later than December 30th of each calendar year.

OIO Comment:

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

Management Response (Recommendation 2):

OTR concurred with the recommendation and stated that ROD will perform quarterly reviews of applications to ensure that all required documentation is included in the package. The reviews will begin July 1, 2017.

OIO Comment:

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

Management Response (Recommendation 3):

OTR concurred and stated that the ASD will revise its current policies and procedures for compliance audits. The procedures addressed in the revised criteria will include: identification of non-compliant owners; guidelines for exemption revocation and cancellation; setting exemption termination dates due to exceeding the income level or not meeting domicile requirements; processing 1st and 2nd level appeals; administrative policies regarding interest and penalty waivers, documentation for audit cases in the ITS electronic notes, SPU responsibilities for exemption removal, reinstatement, and penalty and interest waivers; procedures for analyzing supporting documentation and file retention. The revised procedures are scheduled to be completed by September 30, 2017.

OIO Comment:

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

Management Response (Recommendation 4):

OTR concurred and stated that ASD will revise the public website to include information on maintaining eligibility for the tax abatement, the annual compliance audits, and contact number to cancel the abatement. In addition, ROD will revise form 9 to add a paragraph on requirements for maintaining eligibility, annual compliance audits, and whom to contact if they are no longer eligible for the exemption. The form will be revised by July 1st 2017.

OIO Comment:

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 ⁴
1	Place the updated income charts in a central location and provide timely updates to staff to ensure that the staff is working with the most current information. Determine the feasibility of establishing a standard date to determine annual income limits.	Internal Control	July 1, 2017	Open
2	Perform periodic quality reviews of applications to ensure documentation required is included in the package.	Program Effectiveness & Internal Control	July 1, 2017	Open
3	Develop a written Standard Operating Procedures (SOP) for the SPU's compliance reviews of the Lower Income Homeownership Tax Abatement Program. The SOP should at a minimum document procedures and limitations regarding waivers for exceeding income limitations, establishing end dates for the exemption when the household is no longer compliant with Program requirements, and procedures for handling households that fail to file District Income Taxes.	Internal Control	September 30, 2017	Open
4	Finalize the revision of ROD Form 9 "Lower Income Homeownership Tax Abatement Program" so that all program participants will be aware of the requirements to remain eligible for the exemption and that they are subject to annual audit.	Program Effectiveness	July 1, 2017	Open

⁴ 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.

APPENDIX:

Office of Tax and Revenue Management 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: *for* Keith J. Richardson
Deputy Chief Financial Officer

DATE: June 9, 2017

SUBJECT: Audit of Internal Controls over the Lower Income Homeownership Tax
Abatement Program (Report Number: 17-01-03 OTR)

The Office of Tax and Revenue (OTR), Real Property Tax Administration (RPTA) has completed their review of the referenced above audit report conducted by the Office of Integrity and Oversight (OIO). The results of the OIO findings are addressed in the attached document.

Exhibit A contains RPTA's response to Agency Reported Estimated Completion Date and Status requirements which were outlined under Exhibit A: Summary of Recommendations and Benefits.

The RPTA is regularly assessing the existing policies and procedures and standard operations, in an effort to assure that all potential risks of any kind are mitigated by strong audit procedures.

Should you have any further questions, please feel free to contact Vladimir Jadrijevic, Director, Real Property Tax Administration at (202) 442-6682.

Exhibit A: Summary of Recommendations and Benefits

No.	Recommendation	Type of Benefit	Agency Completion Date	Status
1	Place the updated income charts in a central location and provide timely updates to staff to ensure that the staff is working with the most current information. Determine the feasibility of establishing a standard date to determine annual income limits.	Internal Control	July 1 2017	ROD will update its audit policies and procedures to add reference to ROD Form 9 which contains all income charts and sales price requirements. The revisions will be done by July 1, 2017. ROD will maintain a standard date of updating annual income limits no later than December 30th of each calendar year.
2	Perform periodic quality reviews of applications to ensure documentation required is included in the package.	Program Effectiveness & Internal Control	July 1 2017	ROD will perform quarterly quality reviews of applications to ensure that the required documentation is included in the package.

<p style="text-align: center;">3</p>	<p>Develop a written Standard Operating Procedures (SOP) for the SPU's compliance reviews of the Lower Income Homeownership Tax Abatement Program. The SOP should at a minimum document procedures and limitations regarding waivers for exceeding income limitations, establishing end dates for the exemption when the household is no longer compliant with Program requirements, and procedures for handling households that fail to file District Income Taxes.</p>	<p style="text-align: center;">Internal Control</p>	<p style="text-align: center;">September 30, 2017</p>	<p>ASD will revise current policies and procedures for compliance audits for the Lower-Income Homeownership Tax Abatement Program.</p> <p>Revisions to written procedures will address:</p> <ul style="list-style-type: none"> • OTR audit criteria to identify non-compliant property owners receiving the exemption. • OTR guidelines for exemption revocation and cancellation. • Exemption termination dates due to exceeding income limitation, non-DC domiciled, non-owner occupied, etc. • ASD exemption notifications mailed to program participants (i.e. grant, revocation, cancellation & annual continuous eligibility reminder). • Processing of 1st and 2nd level exemption appeals. • Administrative practices and policies regarding interest and penalty waivers. • SPU auditor and manager responsibilities for exemption removal, reinstatement and P & I waivers. • Required supporting documentation and electronic notes for all audit cases. • Procedures for analyzing supporting documentation. • File Retention.
<p style="text-align: center;">4</p>	<p>Finalize the revision of ROD Form 9 "Lower Income Homeownership Tax Abatement Program" so that all program participants will be aware of the requirements to remain eligible for the exemption and that they are subject to annual audits.</p>	<p style="text-align: center;">Program Effectiveness</p>	<p style="text-align: center;">July 1, 2017</p>	<p>1. ASD will revise the public website (Tax Credits tab) with additional information regarding annual compliance audits, maintaining eligibility for the tax abatement, and contact information to cancel the abatement.</p> <p>2. ROD will revise Form 9 to add a paragraph as to the requirements of remaining eligible for the tax abatement program; whom to contact if they are no longer eligible for the tax abatement; and the annual audit being conducted by Special Program's Unit of RPTA. The form will be revised by July 1st.</p>