

PUBLIC OVERSIGHT HEARING

ON

**FISCAL YEAR 2009 BUDGET REQUEST OF THE
OFFICE OF THE
CHIEF FINANCIAL OFFICER (OCFO)**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia
The Honorable Jack Evans, Chairman**

**April 9, 2008, 10:00a.m.
Chamber, John A. Wilson Building**



**Testimony of
Stephen M. Cordi
Deputy Chief Financial Officer
Office of Tax and Revenue**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning, Chairman Evans and members of the Committee. I am Stephen Cordi, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to present testimony on OTR's FY 2009 budget request and performance objectives.

FY 2009 Budget Request

The FY 2009 budget request for OTR is \$93.5 million and 633 FTEs, an increase in gross funds of \$5.5 million (6.2%) and 25 FTEs from FY2008. This increase is almost entirely in local funds, made up of \$1.6 million for increased compliance efforts, \$1.3 million for systems programming requirements, \$210,000 for improved billing operations, and \$2.9 million in pay rate and fixed cost increases, offset by approximately \$500,000 in reductions for one-time and other programmatic expenditures.

The total Other-type budget request for FY08 is \$24.9 million, which includes a transfer out of \$15 million for class action litigation to a central budget line outside of the OCFO, increases in authority for various contingency collection and discovery efforts totaling \$12.6 million, and \$2.4 million to support critical infrastructure and programming improvements necessary to continue specific

revenue initiatives. The latter is funded by the compliance fees charged to delinquent taxpayers.

Since FY07, the Other-type budget has also contained \$1.4 million for the temporary relocation of the Recorder of Deeds to new space during the planned renovation of 515 D Street. Conditions in the building continue to be poor, both for employees and visitors to the building. We continue to work with OPM, but are concerned about current plans to redesign the project and begin renovations with our employees in place. We do not believe that the space is functional in its current condition or that the Recorder of Deeds will be able to perform effectively while construction is ongoing.

While the FY09 request focuses funding increases primarily on revenue generating activities, we are also mindful of the many ongoing audits of OTR's operations that will continue to require reallocation of resources to shore up the integrity of our systems and processes to prevent future fraud.

FY 2009 Performance Objectives

Revenue

In FY09, OTR will continue to focus on enhancing revenue collections. Return on investment from previous enhancements is impressive. So far in FY08, OTR's collections activity alone is running \$34 million ahead of the same time last year (a 56% increase). This performance is a result of the investments made in the Compliance area over the past two years and is directly attributable to the work of our revenue officers and auditors.

The FY09 request includes \$1.6 million and 25 FTEs to fund 2 additional groups in our Collections Division. We project that this investment will yield another \$30 million in revenue, included in the District-wide budget. We are confident in these revenue projections based on our total accounts receivable, which totals more than \$115 million for approximately 234,000 accounts, and the new accounts receivable being generated every day from our ongoing audit programs. Because of the nature of the collections business, which rewards quick pursuit of outstanding amounts, adding additional staff in this area will yield immediate results and will give our Compliance Administration the ability to focus on more of the high dollar value accounts, rather than allowing them to go to the external collection vendors.

The FY09 increases to Other-type authority contained in our request will give these employees additional tools to identify non-filers and other non-compliant taxpayers, while also enhancing the collection and discovery efforts performed by our external vendors and our ability to take advantage of various federal offset programs.

We expect these impressive results to continue as we complete the programming work to support the more complex phases of ongoing initiatives, including City Clean Hands and our W-2 initiatives, which are well underway.

Technology

Technology continues to be the single largest issue facing OTR, determining both our ability to succeed in generating additional revenue and to reduce the risk of fraud from internal and external sources. As I have previously testified, we are continuing our efforts to tighten internal controls within the Integrated Tax System (ITS) and to look more closely at business rules and processes.

The ITS has provided significant benefits to the OTR and District taxpayers, in terms of electronic filing options, prompt deposit of payments and refund processing cycle times. Efficiencies provided by ITS have permitted OTR to shift

more than 50 positions from returns processing duties to revenue production functions since 2001.

That said, the ITS is not without its problems and requires a high level of ongoing maintenance and support. The \$1.3 million in programming support costs included in the FY09 request is specifically to help us address this critical need, particularly for the Real Property billing module and ancillary systems. The budget also contains \$210,000 to allow us to outsource the production and mailing of the vast majority of our bills and notices, thus freeing up staff resources for more essential programming and maintenance requirements.

The ITS modernization effort, for which we are beginning to develop the requirements now, will ultimately resolve many of the concerns we have in this area. The Capital Budget for FY08 was modified to support acceleration of this project, and we would expect to proceed with the beginning phases of implementation in FY09.

Until then, we must continue to invest time and effort to ensure that ITS fulfills the basic processing and billing requirements of tax administration, supports annual

tax law changes, and relies on clear and consistent business rules to prevent and detect internal and external fraud attempts.

Conclusion

OTR faces many challenges in the current year, and as we look toward FY09. We will have to carefully balance the need to redesign fundamental businesses processes to ensure the security of our systems with the goal of continuing to provide strong revenue collections and quality taxpayer services. Thank you for this opportunity to present this testimony, and for your support as we undertake the work ahead.

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