

**PUBLIC OVERSIGHT HEARING**  
**ON**  
**THE FISCAL YEAR 2011 AND 2012 SPENDING AND**  
**PERFORMANCE BY THE OFFICE OF THE CHIEF**  
**FINANCIAL OFFICER**

**Before the**  
**Committee on Finance and Revenue**  
**Council of the District of Columbia**

**The Honorable Jack Evans, Chairman**

**February 27, 10:00 a.m.**  
**John A. Wilson Building**  
**Council Chambers**



**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 on Finance and Revenue. I am Stephen Cordi, the Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR). I am pleased to have the opportunity to testify today on the operations of the Office of Tax and Revenue.

### Operations

In FY 2011, the Office of Tax and Revenue had a revised budget of \$55.0 million (\$36.0 million local) that included authorization for 482 employees. OTR completed the year with a surplus of approximately \$5,000 in local funds.

The FY 2012 budget for OTR is \$56.3 million and 470 FTEs, of which \$42.3 million is in local funding. Year to date expenditures and obligations are running on a pace with our current budget, and we project no surplus.

Currently, OTR has just under 30 vacancies (or 6% of the authorized level), largely as a result of the last round of retirement incentives, which ended in December of 2011. We are working aggressively to fill these positions, which somewhat disproportionately impact Customer Service and Real Property. I am pleased to announce that we have filled three critical vacancies, bringing on a new Director of Customer Service, Eva Liggins, a new Chief Appraiser, Tony George, and a new Recorder of Deeds, Ida Williams. We are actively recruiting and interviewing to fill additional vacancies in these administrations, and would expect to fill more than half of the current number in the next 30 days.

## Compliance Initiatives

Despite the challenges of reduced staffing, OTR has continued to undertake a variety of largely automated revenue initiatives.

One major compliance initiative underway is the federal vendor offset program authorized by Council in 2010. This program will enable the District to recover unpaid taxes (and ultimately other liabilities) from federal vendor payments made by the U.S. Treasury in exchange for providing a reciprocal offset for the Treasury against District payments. Programming for this is well underway, and we expect to begin testing the system with them soon. We continue to manage a similar program to offset District vendor payments to satisfy the tax liabilities of businesses operating in the District, and so far in FY 2012 have captured more than \$450,000 in delinquent taxes from vendors servicing the District.

I am pleased to announce that, for the current filing season, we have also implemented an income tax offset program with the state of Maryland, under which we will capture DC refunds for outstanding Maryland liabilities and, more importantly, will receive offsets of Maryland refunds to satisfy liabilities of District taxpayers. We expect to receive the first offset payments this week.

Additionally, as part of our post-amnesty enforcement program, we have sent 2 rounds of notices to employers to increase withholding for tax delinquents. We expect this to generate significant additional revenue in the current fiscal year. We have also implemented a series of enhancements to our revenue protection criteria, to reduce the risk of issuing fraudulent refunds.

## TY 2011 Filing Season

The current filing season is off and running, and we are seeing a strong increase in electronic filing from last year. Through February 21<sup>st</sup>, the number of electronically filed income returns was up by 40%. Taking into account the slow start of electronic filing in FY 2011, we would not expect this rate of increase to remain steady through the April filing deadline, but I believe we can project another year of significant growth.

The number of businesses taking advantage of electronic filing continues to grow as well, up nearly 7% so far this year, which also means strong growth in the dollars we are able to take in electronically. For all tax types, electronic payments are up more than 20% over the same time last year, meaning that not only can the District process each return more cost-effectively, but we have access to deposits almost immediately, and we can take advantage of the electronic data received to enhance compliance and fraud prevention programs.

OTR is also in the process of implementing combined reporting for the current filing season. Our regulations have completed the public comment period and are awaiting adoption. Forms were released last week. We should benefit from extension payments in March and April. The most significant combined reporting returns will not be filed until September 15, 2012.

## Real Property

The FY 2013 assessment notices being mailed this week reflect an increase in District real property values from total value in FY 2012 of \$158.4 billion to \$162.9 billion in FY 2013, a 2.8% increase.

The commercial market has experienced an increase in the total commercial base from approximately \$72.5 billion to \$77 billion. This is an increase of about 6.7%.

In FY 2011, the Real Property Tax Administration billed a total of \$2.1 billion in real property taxes, an increase of 2% from FY 2010. The annual tax sale last July collected \$12.7 million on 1,653 delinquent properties, including back taxes, penalties and fees owed to other District agencies.

In FY 2011, the Recorder of Deeds received approximately 130,000 documents, a 9% increase from FY 2010, as a result of increased activity in the commercial sector. Although the number of recordings increased by only 9%, revenues increased by 24% to \$318.1 million, again due to the increase in commercial transactions, which are generally of a higher dollar value.

### Other key performance results for OTR include:

- The Customer Service Administration received more than 181,000 calls in FY 2011. Overall, average call wait time was less than 11 minutes, and average walk-in wait time was less than 7 minutes. However, during peak times (January through April) our wait times will exceed the average. Wait times through February are running just above the average times through the

same period last year, in both the walk-in and call centers. We believe this is attributable to slight increases in both volume of calls and the number of customers visiting the center. There has also been an increase in the number of callers transferring from the Interactive Voice Response Unit (IVR) to a customer service specialist. The IVR handled approximately 89,000 calls in addition to those answered by our Customer Service personnel.

- Earned Income Tax Credit (EITC) claims increased by 3.7% in FY 2011 to 51,825 returns, with approximately \$47 million in EITC refunds delivered to District taxpayers.
- Last year, 223,464 individual income tax returns were filed electronically, a 14.5% increase from the prior year. Electronic returns represented 65% of the all tax year 2010 individual income returns filed, up from 61% the previous year.

### Report on Internal Controls

Since 2009, OTR has been working closely with the OCFO's Chief Risk Officer to identify systemic risks and enhance existing controls in our most critical operations. In the Fiscal Year 2011 CAFR, these efforts were recognized as OTR was removed from the Yellow Book for the first time since 2007. In addition to notable enhancements in our ability to detect potentially fraudulent refund requests, we continue to improve controls in our tax systems, and to reinforce the importance of internal controls to employees by implementing a process of ongoing internal control tests, to ensure that controls continue to perform as designed.

## Information Technology

Last year, an RFP was issued for a new Real Property Tax System. After a comprehensive bid evaluation process, OTR will be sending forward a contract to the Council for approval, and would hope to begin design and implementation in the next few months. In October, 2011, we also issued the RFP for the replacement of the Integrated Tax System and expect to receive bids back from prospective vendors in March. Systems remain a key part of the solution to many of our identified control weaknesses, as we work to eliminate manual processes and build in specific controls and monitoring tools to reduce the risks of fraud. We hope that a new Real Property System can be implemented in 2014, with ITS replacement to beginning later that same year.

## **Conclusion**

OTR remains focused on the goal of improving tax compliance and protecting revenue to ensure that the District is collecting the proper tax due as proscribed by law. In addition to the initiatives already mentioned, OTR is pleased that it will be hosting the annual conference of the Federation of Tax Administrators this June. The top state tax administrators from across the country will gather for a 4-day conference at the Fairmont Hotel.

OTR has made significant changes to business processes to live within a reduced budget, without sacrificing compliance efforts or diminishing hard-won improvements in internal controls. We expect that, over the next five years, OTR will make dramatic improvements in our operations by implementing systems that

take full advantage of modern technology and which are easier to maintain and update than the legacy systems.

Thank you, Mr. Chairman, and members of the committee, for this opportunity to testify.