

PUBLIC OVERSIGHT HEARING
ON
THE FISCAL YEAR 2013 AND 2014 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, 2014, 10:00 a.m.
John A. Wilson Building
Council Chambers



Testimony of Stephen M. Cordi
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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 2013, the Office of Tax and Revenue had a revised budget of \$45.8 million (\$44.4 million local) that included authorization for 481 employees. OTR completed the year with a local funds surplus of \$2,600.

The FY 2014 budget for OTR is \$58.9 million and 510 FTEs, of which \$51.1 million is in local funding. Year to date expenditures and obligations are running slightly below current budget due to vacancy levels in the first half of the year, however we believe that planned hiring and overtime expenditures will result in a minimal surplus for the year.

We are working aggressively to fill existing vacancies, which are disproportionately in Compliance and Real Property, in part because of newly authorized positions. OTR has historical and ongoing challenges recruiting tax auditors and real property appraisers due to competition for the best candidates from the IRS and other localities.

Compliance Initiatives

Over the past year, OTR has continued to undertake a variety of largely automated revenue initiatives.

One major compliance initiative underway is the federal vendor offset program implemented in FY 2013. This program enables 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. To date, OTR has collected \$10.8 million.

Similarly, the DMV offset program implemented during filing season last year has yielded more than \$6 million in recoveries of parking fines to date.

TY 2013 Filing Season

The current filing season got a late start due to the announced delay at the IRS following the federal government shut down. Nevertheless, we are seeing a significant increase electronic filing from the prior year. Through February 14th, the number of electronically filed income returns was up by nearly 16%.

The number of businesses taking advantage of electronic filing continues to grow, up approximately 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 10% 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.

More than 90% of tax year 2012 Individual Income Tax returns were processed as electronically through the District's new Modernized e-File portal. To reduce the burden on low-income taxpayers, the District also participated in the Free File Alliance. More than 7,000 individual returns (or 3%) were filed last year using DCfreefile. Of the filings to date, 1,700 of the electronic returns received are through this application, the same percentage as last year. In addition, taxpayers can also take advantage of DCfreefile fillable forms, which can be used by individuals without any age or income restrictions. Fillable forms look similar to printed forms, with the benefit of many simple math calculations. These forms can then be e-filed or printed and mailed.

Also new this filing season is the option to receive tax refunds in the form of a pre-paid debit card, rather than by paper check or direct deposit. We expect that this option will largely be of benefit to District taxpayers who are "unbanked," who would otherwise have to turn to a check cashing company in order to access their refunds. While there are fees associated with certain activities, funds can be accessed at ATM's in the Citibank network, withdrawn in a lump sum at any bank, or through point-of-sale transactions completely free of charge. Taxpayers are receiving fee schedule information in the mailer with the cards in order to help them avoid unnecessary fees. Through the first 3 weeks, OTR has processed just over 3,000 refunds through pre-paid cards, totaling \$2.9 million. Taxpayers may still opt to receive their refunds in the form of a paper check or direct deposit. Those who make no selection will receive a card.

Beginning March 4th, OTR is doing a series of Tax Resolution Day events in each ward. Residents will be able to get assistance resolving a variety tax issues, including Homestead, Senior Credit, and questions about assessments. In response to feedback from the first such meetings held last year, OTR has scheduled the sessions later in the day to be available to individuals after work, and has opted not to provide tax preparation in order to better meet the needs of the all the individuals requesting help given available resources.

Real Property

The FY 2015 assessment notices that will be mailed later this week reflect an increase in District real property values from total value in FY 2014 of \$170.6 billion to \$188.2 billion, a 10.3% increase.

The commercial market has experienced an increase in the total commercial base from approximately \$80.4 billion to \$90.5 billion. This is an increase of more than 12%. Residential assessments also increased by slightly more than 8%.

In FY 2013, the Real Property Tax Administration billed a total of \$1.9 billion in real property taxes, along with an additional \$146 million in outstanding prior year billings. As you know, we have been working with your staff and others on legislation to reform tax sale procedures and are optimistic that the result will be beneficial for the District and its citizens.

In FY 2013, the Recorder of Deeds received approximately 148,000 documents, a 9% increase from FY 2012, reflecting continuing robust activity in the commercial sector. Revenues increased by 12%, from \$322 million to \$377 million. The

increase revenue is due primarily to the volume of high dollar commercial transactions.

Other key performance results for OTR include:

- The Customer Service Administration received more than 184,000 calls in FY 2013. Overall, average call wait time was less than 12 minutes, and average walk-in wait time was less than 8 minutes. However, during peak times (January through April) our wait times will exceed the average. Wait times through February are running well below the average times through the same period last year, in both the walk-in and call centers. We believe this is attributable to customer service initiatives focused on efficient and effective delivery of service. The Interactive Voice Response Unit (IVR) handled approximately 79,000 calls in addition to those answered by our Customer Service personnel.
- Earned Income Tax Credit (EITC) claims decreased by 4,700 in FY 2013 to 39,195 returns, with approximately \$58 million in EITC refunds delivered to District taxpayers.
- Last year, 256,403 individual income tax returns were filed electronically, a 4.6% increase from the prior year. Electronic returns represented 68% of all tax year 2012 individual income returns filed.

Report on Internal Controls

For several years, 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. As the result of the hard work of key employees throughout the office,

I am pleased to say that OTR has no findings in the Yellow Book for FY 2013, and is already implementing changes to address a few relatively minor Management Letter comments. OTR believes we have made substantial improvements in the control environment over the last several years, and we continue to pursue a course of ongoing improvements through regular risk assessment and control testing.

Along with these recommendations, OTR continues to work to refine our methods for detecting and preventing fraud. While internal fraud is a risk that can be managed through rigorous control programs, OTR also faces a significant risk of external fraud from identity theft, refund schemes, and preparers and others seeking to take advantage of tax credits and other programs to which they are not entitled. We are constantly refining our filters and other automated matches to identify these suspicious filers and prevent these refunds from being issued.

Information Technology

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 expect to announce the selection of a vendor to provide for the replacement of the Integrated Tax System and transmit a contract for approval by the Council shortly. We plan for a new Integrated Tax System to begin implementation in 2015.

Conclusion

OTR remains focused on the goals of improving tax compliance and providing fair and effective tax administration. We continue to look toward the implementation of new automated systems to improve customer service and support enhanced compliance efforts.

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