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# Review of the D.C. Office of Tax and Revenue

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Submitted to the  
D.C. Tax Revision Commission  
Honorable Anthony Williams, Chairman

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## Executive Summary

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The District of Columbia Tax Revision Commission, authorized by the D.C. Council through an amendment to D.C. Code Section 47-460, was established with the purpose of preparing recommendations to the Council and Mayor regarding taxes imposed in the District. The Commission was also asked to review tax administration within the District and make recommendations for improvements. I was engaged to conduct this review, which was to include:

1. A review of the organizational structure of OTR
2. A review of the processing, customer service and collection and audit functions pertaining to income tax, sales and use tax, corporate income tax and real property tax
3. A review of best practices in state and federal tax administration

The Office of Tax and Revenue, under the District's Chief Financial Officer, is responsible for the administration of taxes in the District of Columbia, including personal income tax, corporate income tax, sales and use tax and real property tax. OTR had in FY13 481 authorized positions with a budget of \$59.4 million. The office is organized along functional lines, with the exception of the real property administration which is a separate entity within OTR.

Information necessary to conduct this review was obtained through a series of interviews of top management in the organization, review of documents and statistics provided by OTR, and review of information provided by a number of state tax agencies and the executives at the Federation of Tax Administrators.

## Conclusion

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OTR suffered a major setback in 2007 when it was discovered that Harriet Walters, an employee in the Real Property Administration, had been engaged for some time in a real property refund scheme that resulted in the District paying out \$48 million in fraudulent refunds. In the aftermath of that scandal, new management was brought into the agency, controls were initiated and oversight of the agency was strengthened. In the intervening six years, these steps have benefitted OTR and, for the most part, management and the employees have been able to move forward and make changes in their operation necessary to ensure that OTR is a more efficient and effective operation, serving both the needs of the District of Columbia government and the taxpayers of the District.

The recommendations that follow reflect many of the same issues tax agencies throughout the country are currently experiencing.

## Recommendations

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1. *Continue work to obtain a new Integrated Tax System (ITS).* The current ITS was installed in 2001 and is significantly hampering the operation of the agency. OTR is currently evaluating bids that have been received in response to the RFP that was issued for a new ITS. This system, when fully implemented, will enable OTR to adopt many of the best practices utilized by state tax agencies throughout the country and make OTR more efficient and effective and better serve the citizens of the District.
2. *Continue work to obtain and implement a new telephone system for OTR.* The current system is outdated and both employees and taxpayers are not well-served by it. A new system for the call centers in OTR and a new Interactive Voice Response (IVR) will increase efficiencies, provide taxpayers with the ability to communicate with OTR 24/7, and reduce the necessity for direct contact with OTR employees.
3. *Re-evaluate the adjustment/refund review process in the agency.* The current process, implemented after the 2007 fraud scandal, has redundant reviews which appear to consume valuable resources, slow processes and produce results that should be evaluated for efficacy. A new ITS will provide an automated mechanism for much of this review, but I would recommend an evaluation of the current process in the interim.
4. *New internal controls for adjustments have created management burdens and management should review the organization to determine if it would be more efficient to create a separate unit to perform these adjustments.* A recent audit of the agency cited a lack of proper controls for adjustments and recommended a segregation of duties. This segregation has been implemented in each administrative area that performs adjustments, which has apparently created some inefficiency.
5. *Support functions for OTR could be enhanced.* Support functions, including information technology, human resources, training and procurement, are performed by units that report to the Chief Financial Officer. It is clear that an enhancement of these functions would better serve the needs of OTR and could enhance revenue collection for the District and the experience for the taxpayers of the District.
6. Management throughout OTR expressed a concern with morale of employees, citing the impression of many employees that they do not have a career path in the agency. *OTR should consider creating a Leadership Development Program for employees to identify future leaders within the organization.*
7. *Information available on OTR's website and outreach to the public could be enhanced to provide educational materials to taxpayers and promote voluntary compliance.*

8. *Review the statutory and regulatory requirements for the lockbox for each tax type with the goal of having the lockbox serve the needs of the District without creating undue administrative burdens and delays in processing for the taxpayers.*
9. *The current appeal process for real property assessments does not appear to promote timely resolution of these appeals, especially after the second appeal level. The Mayor and City Council should look at the feasibility of creating a third appeal level, to be handled by judges with specific knowledge and expertise in real property laws who could expedite the resolution of these cases.*

## Review of the D.C. Office of Tax and Revenue

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The District of Columbia Tax Revision Commission was authorized by the D.C. Council on September 14, 2011 through an amendment to D.C. Code Section 47-460. The Commission is an independent body consisting of 11 members appointed by the Mayor and the Chairman of the D.C. Council.

The Commission was established with the purpose of preparing recommendations to the Council and the Mayor which (1) provide for fairness in apportionment of taxes; (2) broaden the tax base; (3) make the District's tax policy more competitive with surrounding jurisdictions; (4) encourage business growth and job creation, and (5) modernize, simplify, and increase transparency in the District's tax code. The Commission was also asked to review tax administration within the District and make recommendations to improve efficiency and effectiveness.

This report will discuss the operations of the Office of Tax and Revenue and make recommendations for increased effectiveness of the office.

The stated mission of the Office of Tax and Revenue (OTR), within the Office of the Chief Financial Officer (OCFO), is to collect the proper amount of tax due to the District of Columbia and correctly account for all revenues, while minimizing the burden on taxpayers and the cost to the government. The business principles of the office, as set forth on their website, are:

***1. Customer service must come first.***

Our goals are to provide first-rate customer service, easy access to data when needed, and a proactive outreach program that informs taxpayers about their liabilities. To accomplish this, we will provide taxpayers with clear, timely information on their tax obligations, will give taxpayers multiple ways to file their returns and pay taxes due, and will provide expedient resolution of account matters.

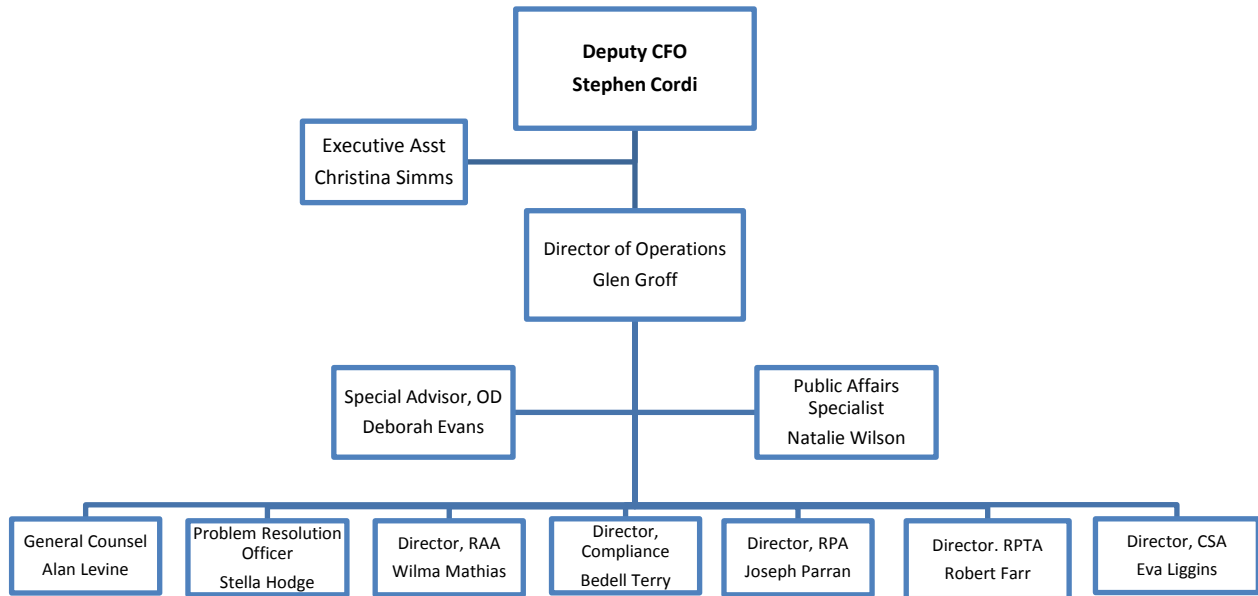
***2. The District's revenue stream must be protected and enhanced.***

Finding the most effective, least costly way to ensure that taxpayers file tax returns accurately and pay liabilities timely is crucial to protecting the District of Columbia's tax revenue stream. Therefore, OTR will encourage voluntary compliance, identify instances of non-compliance - such as failing to file, reporting assessments inaccurately, or paying liabilities tardily - and use appropriate enforcement action when necessary.

***3. Financial integrity and accountability must be incorporated into tax administration.***

Prompt deposit of remittances, correct posting of taxpayer accounts, and diligent maintenance of the District's overall revenue accounts are essential to financing the city's operations. In order to warrant public confidence in the tax system, it is critical that OTR exhibit a high level of personal and organizational integrity.

The office is led by a deputy to the Chief Financial Officer; numerous administration heads report to this deputy and are responsible for functions such as returns processing, revenue accounting and compliance. The organizational chart below shows the specific organization of the office.



**Organizational Structure  
Office of Tax and Revenue**

A book published in the 1990s, entitled *The Orphaned Capital: Adopting the Right Revenues for the District of Columbia*, by Carol O’Cleireacain, cited a number of deficiencies in OTR, including accuracy in tax revenue accounting and a frequent turnover in leadership, which the book contends resulted in a lack of fair and equal treatment of taxpayers. The book also cited the serious potential for corruption within the agency due to weakened internal management and inadequate internal controls.

In 2007, the agency was, in fact, the subject of a significant scandal involving one of its real property employees, Harriet Walters, who, over a period of many years, created and approved fraudulent refunds payable to herself and friends totaling more than \$48 million. The agency was thrown into turmoil when this was uncovered. The employee was prosecuted, the head of OTR and others were terminated, audits of the agency were conducted, internal controls to prevent future incidents were put in place, new management of OTR was brought in from outside the agency, and oversight of the agency was significantly tightened.

Finally, I would comment that OCFO and OTR have benefitted from the recent stability in the DCFO position. As noted in the book, *The Orphaned Capital: Adopting the Right Revenues for the District of Columbia*, OTR suffered in prior years from the constant change in leadership. It



is critical going forward that this stability continue, especially in light of the major IT projects ahead. It is critical that the DCFO for Tax and Revenue continue to be a person with extensive experience in state and local tax administration and to have the confidence not only of the employees within the agency, but also tax peers throughout the country.

In preparing for this report, I conducted interviews with top management of OTR over a period of several weeks, reviewed reports produced by many of the administration units and other reading material, and compared information on the agency’s website to other state tax agency sites.

I believe that many of the concerns expressed in 1997 that may have facilitated the corruption that was uncovered in 2007 have now been mitigated. The agency is, however, currently faced with many of the same issues state tax agencies around the country are encountering, i.e., aging computer systems, inadequate staffing and support resources due to budget issues, and all too frequent legislative changes to tax structure and revenue streams for a variety of special purposes.

In FY13, OTR had 481 authorized positions and a total budget of \$59.4 million. As you can see from the chart below, the number of authorized positions has decreased significantly over the last five to six fiscal years. Only a portion of that decrease can be explained by the reorganization of the information technology functions into one centralized unit under the OCFO.

<b>Office of Tax and Revenue</b>					
<b>Full-Time Equivalent Employees/Operating Budget</b>					
	<u>FY 2007</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Executive	23	20	18	18	20
Returns Processing Administration	84	70	68	67	68
Customer Service Administration	63	60	57	60	60
Compliance Administration	210	185	184	176	178
Revenue Accounting Administration	19	25	23	23	26
Real Property Tax Administration	149	137	132	126	129
Information Technology	59	0	0	0	0
<b>TOTAL EMPLOYEES</b>	<b>607</b>	<b>497</b>	<b>482</b>	<b>470</b>	<b>481</b>
<b>TOTAL OPERATING BUDGET</b>	<b>\$91,915,321</b>	<b>\$68,071,327</b>	<b>\$57,504,334</b>	<b>\$56,282,075</b>	<b>\$59,388,121</b>

OTR is currently organized along functional lines, with the exception of the administration of the real property function. Oversight of the District’s real property tax is largely a self-contained operation within OTR, and has allocated to it approximately 25% of total personnel. The taxpayer assistance and collection functions for real property are, however, handled outside of Real Property Tax Administration by OTR employees and contractors in Customer Service and Compliance Administrations. The remainder of OTR resembles a typical state tax agency.

Personnel handle taxpayer accounts for the various tax types under the administration of OTR, post returns and revenue collected to taxpayer accounts, bill for underpayments, audit taxpayer records, collect amounts overdue and distribute the revenue to the appropriate funds. Information technology resources for OTR are provided by the Office of Chief Information Officer that reports to the OCFO. Likewise, personnel support for OTR is provided through the OCFO's office.

## Returns Processing Administration

The Returns Processing Administration (RPA) is, as the title suggests, responsible for ensuring that tax returns for all the tax types administered by the agency are processed correctly. The administration had 68 appropriated positions in FY13 and has as its primary objectives to process tax returns in a timely manner, issue refunds due to taxpayers within a specified time frame, deposit payments from taxpayers timely, and to provide taxpayers with the forms and instructions needed to meet their filing obligations.

The charts below set forth the number of taxpayers registered to file returns for the major taxes which are the subject of this study and also show the number of returns processed in recent years for each tax type.

Returns Processing Administration Number of Accounts		
	<u>FY 2011</u>	<u>FY 2012</u>
Individual	348,405	338,158
Corporate Franchise Tax	83,106	84,224
Unincorporated Business Franchise Tax	97,423	106,904
Withholding Tax	50,748	53,982
Sales & Use Tax	28,547	31,046
<b>TOTAL</b>	<b>608,229</b>	<b>614,314</b>

<b>Returns Processing Administration Number of Returns Processed</b>						
	<u>FY 2011</u>	<u>Percent of Total</u>	<u>FY 2012</u>	<u>Percent of Total</u>	<u>FY 2013 thru June</u>	<u>Percent of Total</u>
<b>Individual Income Tax</b>	(Note: All returns based on the year of the FORM, not year they were filed)					
Electronic	244,972	68%	241,038	72%	–	–
Paper	116,284	32%	95,508	28%	–	–
<b>Sales &amp; Use Tax</b>					–	–
Electronic	44,122	47%	67,879	51%	51,941	62%
Paper	48,842	53%	65,664	49%	32,007	38%
<b>Corporate Franchise Tax</b>						
Paper	28,086	100%	10,953	100%	–	–
<b>Unincorporated Business Franchise Tax</b>						
Paper	20,634	100%	13,805	100%	–	–

In conjunction with the objectives outlined above, RPA is responsible for coordinating the lockbox contract with OTR. The agency is currently in year three of a five-year contract with Wells Fargo to assist in processing returns and payments. The lockbox is required for certain bond issues of the D.C. government.

The chart below shows who is responsible for processing tax returns and payments received for the major taxes administered by the agency.

<b>Returns Processing Administration Designated Tax Return Processing Locations</b>			
	<u>In-House Processing</u>	<u>Lockbox Processing</u>	<u>Designated Processing Location</u>
Individual Income	Yes	Yes	Lockbox
Individual Income Back Year	Yes	No	In-House
Individual Declarations	Yes	Yes	Lockbox
Corp Franchise	Yes	Yes	Lockbox
Corp Franchise Back Year	Yes	No	In-House
Corp Franchise Combined Filers	Yes	No	In-House
Corp Declarations	Yes	Yes	Lockbox
Uncorp Franchise	Yes	Yes	Lockbox
Uncorp Franchise Back Year	Yes	No	In-House
Uncorp Declarations	Yes	Yes	Lockbox
Sales & Use	Non-remit returns & exceptions only	Yes	Lockbox
Withholding	Yes	Yes	Lockbox
Personal Property	Yes	Yes	Lockbox
Personal Property Back Year	Yes	No	In-House
Fiduciary	Yes	Yes	Lockbox
Fiduciary Back Year	Yes	No	In-House
Real Estate	Exceptions & Cash Only	Yes	Lockbox

While income tax and withholding tax returns and payments are directed to the lockbox facilities, the agency has the authority to process in-house those returns and payments that come into the agency's location directly. This authority provides the agency with the flexibility to process returns and payments quickly and efficiently. On the other hand, the agency is required by bond provisions to forward even those sales tax returns and payments that come into their office directly to the lockbox for processing. This establishes a cumbersome process for handling sales tax payments directed by the taxpayer to the agency's location and can result in delay in processing and misapplication of taxpayer payments. The voucher that is submitted with the payment stays in the agency and is processed through their computer system. The check is forwarded to the lockbox and must be manually matched to the voucher when the payment information is transmitted by Wells Fargo back to the agency.

### Customer Service Administration

The Customer Service Administration has 60 authorized positions and is comprised of three units: a call center, a walk-in center and a correspondence unit. Almost half of the administration's employees are assigned to the call center. The chart below shows the volume of calls coming into the Customer Service call center the last several years, the number of abandoned calls, and the average wait time for the taxpayer, as well as the volume of emails and correspondence received in agency.

Customer Service Administration Volume of Calls Received					
	<u>FY 2007</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Calls Received -- All tax types</b>	200,500	186,125	181,035	185,654	184,454
Abandoned	6,782	26,434	27,075	26,725	27,826
Answered	193,718	159,691	153,960	158,929	156,628
Average Answer Time	3.94	7.77	9.30	10.16	11.48
<b>Interactive Voice Recognition (IVR) Calls</b>	35,297	71,999	64,241	57,782	79,387
<b>Correspondence</b>	122,503	178,362	196,348	228,456	310,169
<b>Emails</b>	Data not available	Data not available	6,154	13,228	20,611
<b>Walk-Ins</b>	55,492	46,754	46,828	47,818	51,731

The current phone system has the capability to place different types of calls in queues, but the system is currently set up to handle all calls on a first-in, first-out basis and all employees are trained across all tax types and are expected to handle calls ranging from income tax to real property. Employees work to resolve taxpayer issues with one phone call and, thus, they are authorized to perform an adjustment to an account if justified, close an account when the

taxpayer provides information warranting that action, enter into a payment plan when a taxpayer cannot make payment in full, and the like.

As shown in the chart above, the volume of calls and correspondence coming into the administration has increased over the recent years. While some of that increase is attributable to increased compliance activity within the agency, the lack of some self-service options for taxpayers typically available in other tax jurisdictions results in the necessity to call or write OTR for assistance. For instance, the website does not provide an option for taxpayers to enter into a payment plan online to resolve their tax liability for any of the tax types or to obtain the status of a tax refund. All initial billings sent out by the agency have the customer service number as the contact number for the agency. As a result, every taxpayer who has a deficiency and does not have the ability to pay it in full, contacts the Customer Service call center to request a payment plan.

Many states surveyed have the capability on their website for taxpayers to request and arrange a payment plan of varying duration with the option of debiting their bank account each month, without making direct contact with an employee of the agency, and to get the status of a refund tax return. An increase in the availability of online services could have a direct impact on the number of calls received each month, resulting in a reduction in the wait times for the taxpayers who actually have a need to speak with a customer service representative.

OTR is also in the process of procuring a new phone system for its call centers. This system, when implemented, will provide more flexibility in the management of calls and better use of the Interactive Voice Response (IVR) system, another tool for providing taxpayers with information about their accounts 24/7, without the need to speak directly with a representative.

## **Compliance Administration**

The Compliance Administration (CA), with 178 authorized positions, is responsible for all collection, audit and criminal investigation functions for all tax types administered by OTR. The administration also handles all first level appeals of tax assessments, other than real property assessments.

The audit unit conducts field audits for sales and use tax, corporate income tax, and high-dollar personal income tax accounts, and office audits for all the taxes administered by OTR. The chart below shows the number of these audits performed in recent years. You will note that for two years the numbers were not broken down by tax types, but are provided in the aggregate.

<b>Compliance Administration Completed Field Audits</b>				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Sales & Use Tax	402	485	*2,580 (Includes sales & use tax, business income tax and other. Did not capture audits by tax type in FY 12)	672
Business Income Tax	375	399		454
Other	1,658	1,342		742
<b>TOTAL</b>	<b>2,435</b>	<b>2,226</b>	<b>2,580</b>	<b>1,868</b>

\*Changed reporting in June 2011 – did not capture audits by tax type for July–September

CA expressed concern regarding the difficulty in filling vacancies within the audit unit and attributed this to the excessively high minimum qualifications for several audit jobs. For example, the minimum qualifications for an entry level Tax Auditor require one year of specialized experience performing the related duties described for the job. In addition, the candidate must have a degree in accounting or a related field and at least 24 semester hours in accounting. The qualifications also make reference to a certificate as Certified Public Accountant or a Certified Internal Auditor. Minimum qualifications for similar positions in a number of states in the region demonstrate that the District’s minimum qualifications are more difficult to meet than in most other jurisdictions. For instance, the entry level Auditor I position in the Virginia Department of Revenue does not have a strict educational requirement in the minimum qualifications. Instead, the minimum qualifications require, among other things, a working knowledge of Virginia and federal tax laws, forms, schedules, and filing procedures, a working knowledge of accounting and audit terminology and techniques, a demonstrated ability to research audits and prepare audit and production reports, and a demonstrated ability to analyze or audit financial records, manual and automated ledgers, and determine proper tax liabilities. The minimum qualifications for the Revenue Field Auditor Trainee in the Maryland’s Comptroller’s Office are a bachelor’s degree with six credit hours in accounting and fifteen credit hours in related courses, including business, finance, economics, business administration and data processing. West Virginia requires a Bachelor's degree from a regionally accredited four-year college or university with a major in accounting, or business administration, economics, marketing, or a closely-related field, which must have included eighteen semester hours of accounting.

In addition, OTR is competing directly with the IRS in its hiring of auditors, and the IRS qualifications for similar positions are less burdensome for positions that begin at a higher salary. All this puts OTR in a competitive disadvantage when hiring for these positions. OCFO's human resources office should be encouraged to work with OTR to revise the minimum qualifications for the tax auditor positions to more accurately reflect the needs of CA.

CA is also responsible for collection of all outstanding tax liabilities, as well as pursuing taxpayers who have not filed the required tax returns, both business and personal. These liabilities, after the initial billing by the tax system, are placed in the agency's collection system, which is part of the existing integrated tax system (ITS) installed in 2001. When ITS was installed, the collection function was never completely implemented. There is, therefore, essentially no automated case flow for deficient accounts. As a result, all personal income tax cases under \$25,000 are sent to an outside collection agency if not paid within 44 days after the first collection notice. All other personal income tax cases are sent to the outside collection agency if not paid within 180 days of the first collection notice. Business tax liabilities under \$25,000 are also sent to the collection agency, but liabilities over that threshold remain in OTR for collection. While OTR has many of the collection tools utilized by other state tax departments available to them, most of these require manual intervention by an OTR employee. For example, while legislation was enacted to provide authority to perform data matches with financial institutions for bank attachments, OTR is not currently able to perform any of these data matches. An RFP to procure services to perform these matches has not been issued to date. Therefore, any bank attachments that are issued by OTR are typically "blind" attachments issued to a number of financial institutions in the hope of finding a bank account for a particular taxpayer at one of them. Salary garnishments are an effective mechanism for collection of personal income tax debts, but the employment information from the Division of Employment Services in the District has never been fully loaded into the collection system for any automated program of garnishments. Instead, employees within the collection unit must look up information on a case-by-case basis to try to locate an employer for a garnishment.

While the collection unit has a call center for collections, it is used only to handle incoming calls to the department for both personal income tax and business tax collection cases. There is no predictive dialer capability for making outbound calls because the collection system information cannot be loaded into the dialer system.

All of this makes for a largely manual collection operation, which includes the use of collection agents operating in the field to collect amounts due from businesses.

CA is also responsible for using IRS data it receives each year to identify taxpayers who have failed to file returns or have underreported their tax liability when filing returns in the District. While they have successfully utilized the federal information to perform certain matches on an automated basis, they could benefit by implementing some programs being performed in other jurisdictions and automating programs, such as the Revenue Agent Reports (RARs), that are

being handled manually, reducing the number of audits that can be completed by existing personnel.

In spite of these obstacles, the Compliance Administration has been successful in collecting large amounts of outstanding debts for the District. The chart below shows the dollars collected by category over several years.

<b>Compliance Administration \$ Collected by Category</b>				
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Enforced Collections</b>				
Collections by Revenue Officers	\$ 41,149,963	\$ 51,958,528	\$ 56,167,400	\$ 57,877,787
Collections via Office Audit	7,551,909	18,840,160	8,037,714	7,936,571
Collections via Compliance Programs	10,130,433	1,077,469	6,408,853	11,817,954
Refund and Vendor Offset	14,812,643	19,018,751	16,574,924	41,803,575
RARs	Data not available	Data not available	Data not available	Data not available
CP 2000	2,417,396	7,727,604	3,467,528	2,328,313
Other	11,442,857	16,680,269	21,397,963	33,590,830
<b>COLLECTIONS TOTAL</b>	<b>\$ 87,505,201</b>	<b>\$ 115,302,781</b>	<b>\$ 112,054,382</b>	<b>\$ 155,355,030</b>

## **Revenue Accounting Administration**

The Revenue Accounting Administration has 26 employees. It is responsible for accounting and financial reporting, including bank reconciliations, transfer of the taxes collected to certain dedicated accounts, and production of the Comprehensive Accounting and Financial Report. The administration also has the refund control unit which is responsible for the review of refunds issued by OTR. This function was strengthened in the wake of the Harriet Walters matter in 2007.

## **General Counsel**

The General Counsel's office has 12 employees, 8 of whom are attorneys. They provide legal advice and support for OTR and represent the agency in contested tax matters.



## Real Property Tax Administration

The Real Property Tax Administration (RPTA), with 129 authorized positions in FY13, is charged with administering the real property tax in the District. It is comprised of the Recorder of Deeds, the Assessor Unit which is responsible for both residential and commercial assessments, and the Assessment Services Unit.

In November 2012, the Inspector General, Charles J. Willoughby, issued a report entitled, *“Evaluation of the District’s Management and Valuation of Commercial Real Property Assessments.”* The audit was conducted pursuant to a contract with Almy, Gloudermans, Jacobs and Denne and is often referred to as the Gloudermans report. It made 28 recommendations to the District of Columbia to correct deficiencies in appraisal practices and organization of the Real Property Tax Administration. Attachment 1 of this report is OTR’s most recent update on the agency’s implementation of the recommendations contained in the Gloudermans report.

The Recorder of Deeds Unit has 21 of the 129 authorized positions in the Administration and is responsible for maintaining the system in which the deeds are recorded for easy access by the public. That system is currently being upgraded with an implementation date of December 2013. The upgraded system will provide, among other things, enhancement to the efile system for deeds, with the goal of significantly increasing the current efile rate of 40 percent.

The Assessor Unit is responsible for the annual assessments of residential and commercial properties in the District of Columbia. The assessment process is aided by the Computer Assisted Mass Appraisals system (CAMA) which the agency is currently updating to a new version that will provide enhancements to the system. The chart below shows the number of parcels assessed in recent years by category of property.

Real Property Tax Administration No. of Parcels Assessed					
	<u>FY 2007</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013 thru June</u>
Commercial–Greater Than/Equal to \$3 MM	2,693	3,567	3,580	3,648	3,690
Commercial–Less Than \$3 MM	10,572	12,529	12,594	12,202	12,113
Residential–Apartments	15,683	15,829	15,919	15,805	15,900
Residential–Ownership (SFH, condos, etc.)	154,023	164,967	165,372	166,483	167,555
Other	6,586	63	274	718	639
<b>TOTAL</b>	<b>189,557</b>	<b>196,955</b>	<b>197,739</b>	<b>198,856</b>	<b>199,897</b>

There are three levels of appeals of these annual assessments. The first appeal is within the agency, the second appeal is to what is now known as RPTAC and the final appeal is to Superior Court. The chart below shows the level of appeal by category of property to each of these three levels for several years.

<b>Real Property Tax Administration Appeals of Annual Assessments</b>					
	<u>FY 2007</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013 thru June</u>
<b>Agency Appeals</b>					
Residential Appeals–Apartments	1,219	1,392	1,277	1,054	692
Residential Appeals–Ownership	4,428	6,884	5,176	4,391	3,466
Commercial Appeals > \$3 MM	827	1,168	958	962	954
Commercial Appeals < \$3MM	1,269	1,721	1,378	1,142	967
<b>TOTAL</b>	<b>7,743</b>	<b>11,165</b>	<b>8,789</b>	<b>7,549</b>	<b>6,079</b>
<b>Appeals to RPTAC/BRPAA</b>					
Residential Appeals–Apartments	466	710	726	488	333
Residential Appeals–Ownership	1,575	2,973	2,532	1,856	1,850
Commercial Appeals > \$3MM	602	998	737	703	691
Commercial Appeals < \$3MM	492	903	716	569	475
<b>TOTAL</b>	<b>3,135</b>	<b>5,584</b>	<b>4,711</b>	<b>3,616</b>	<b>3,349</b>
<b>Appeals to Superior Court</b>					
Residential Appeals–Apartments	–	89	158	159	–
Residential Appeals–Ownership	1	193	655	839	–
Commercial Appeals > \$3MM	5	583	375	220	–
Commercial Appeals < \$3MM	4	320	220	150	–
<b>TOTAL</b>	<b>10</b>	<b>1,185</b>	<b>1,408</b>	<b>1,368</b>	<b>–</b>

While more than half of the appeals are resolved at the first level, there are a significant number of assessments that are still not resolved after the second level, and Superior Court has a large number of unresolved cases pending on their docket.

The Assessment Services Unit handles the agency’s tax sales each year and administers the homestead credit and the credit for senior citizens.

## Recommendations

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As a result of my review of OTR's operation, it is clear to me that the management of the agency has made significant progress in rectifying the issues that rocked the office in 2007. New management with a high profile reputation for sound tax agency management was brought in as deputy to the OCFO to run OTR, new heads of the various administrations were brought in who had substantial experience in managing like operations, controls were put in place to prevent potential fraud, and the agency, in general, made major steps to model its programs after those in other successful state tax operations.

There remain, however, some issues that need to be addressed, some of which the agency is responding to. My recommendations reflect all of these issues.

### **1. Continue Work To Obtain A New Integrated Tax System (ITS).**

The system that was installed in the early 2000s was never fully implemented and problems that were identified early in its use were never addressed. It was clear from discussions with every administration head that the current ITS operates in a manner that requires much manual intervention, has issues that OTR has developed "workarounds" to address rather than correct, often leading to incorrect information on taxpayers' accounts, and uses valuable employee resources to perform tasks that other systems perform in an automated fashion. In addition, in many instances, reports are not available that would assist management in understanding workloads and production of employees. I was told repeatedly that the information on reports that are available was not reliable and not relied upon. All of this contributes to the impression frequently voiced by the public and elected officials that OTR is not handling matters correctly.

OTR also lags behind other jurisdictions in the availability of online services offered to taxpayers. For example, taxpayers cannot enter into payment plans online and cannot have their monthly payments on these payment plans deducted from their bank accounts. Quarterly estimated payments cannot be scheduled online with payments made from bank accounts. And, those online services that are available, such as electronic filing of personal income tax returns, are underutilized compared to other jurisdictions, perhaps because taxpayers generally feel that online services are lacking. The chart below, provided by the Federation of Tax Administrators, shows jurisdictions in the region and the volume of electronic filing of personal income tax returns for the last two years. While a number of these jurisdictions have enacted mandates which require electronic filing of the returns in certain circumstances, it is still clear that the District lags behind other jurisdictions in the percentage of its taxpayers who take advantage of electronic filing for personal income tax returns.

**Individual Income Tax Filings  
Calendar Years 2012–2013**

	<u>2012</u>	<u>2013</u>	<u>% Change</u>	<u>Non-Paper Percentage of Total</u>
<b>Delaware</b>				
Paper		66,697		MANDATE
Electronic		370,001		
Total		436,698		85%
<b>District of Columbia</b>				
Paper	107,821	108,839	1%	
Electronic	234,027	243,662	4%	
Total	341,848	352,501	3%	69%
<b>Kentucky</b>				
Paper	369,927	344,954	-7%	MANDATE
Electronic	1,391,843	1,427,341	3%	
Total	1,761,770	1,772,295	1%	81%
<b>Maryland</b>				
Paper	599,495	547,375	-9%	MANDATE
Electronic	2,133,883	2,237,716	5%	
Total	2,733,378	2,785,091	2%	80%
<b>New Jersey</b>				
Paper	1,235,246	710,805	-42%	MANDATE
Electronic	3,514,698	4,062,829	16%	
Total	4,749,944	4,773,634	0%	85%
<b>New York</b>				
Paper	1,788,124	1,483,493	-17%	MANDATE
Electronic	8,345,347	8,520,316	2%	
Total	10,133,471	10,003,809	-1%	85%
<b>North Carolina</b>				
Paper	727,965	650,926	-11%	MANDATE
Electronic	3,332,089	3,693,168	11%	
Total	4,060,054	4,344,094	7%	85%
<b>Ohio</b>				
Paper	475,989	407,604	-14%	MANDATE
Electronic	3,720,555	3,900,898	5%	
Telefile	29,799	30,972		
Total	4,226,343	4,339,474	3%	91%
<b>Pennsylvania</b>				
Paper	1,447,732	1,228,465	-15%	MANDATE
Electronic	4,376,948	4,508,301	3%	
Telefile	198,054	181,731		
Total	6,022,734	5,918,497	-2%	79%
<b>Tennessee</b>				
Paper	158,355	128,455	-19%	MANDATE
Electronic	7,926	52,378	561%	
Total	166,281	180,833	9%	29%
<b>Virginia</b>				
Paper	538,372	457,975	-15%	MANDATE
Electronic	2,229,735	2,503,674	12%	
Total	2,768,107	2,961,649	7%	85%
<b>West Virginia</b>				
Paper	147,538	140,137	-5%	MANDATE
Electronic	589,810	593,809	1%	
Total	737,348	733,946	0%	81%

Lack of online service choices forces taxpayers to make contact with OTR directly during business hours to conduct their business. It also impacts the volume of payments received through the mail, taking valuable resources to process and delaying the posting of payments to accounts. Nationwide, taxpayers want more options to handle their tax responsibilities 24/7/365. The increased use of online services should result in a decrease in the number of calls and correspondence received each day in the Customer Service Administration, with a resultant reduction in the wait time for taxpayers when they call and a reduction in the number of abandoned calls.

*A new integrated tax system (ITS) should correct these issues when fully implemented. The agency has issued an RFP for a new ITS; the bids have been received and are currently being evaluated. I would urge OTR to proceed expeditiously with this procurement and would urge the Mayor and City Council to provide the funding to OCFO necessary to implement a new system over the next several fiscal years. The efficiency resulting from a new ITS will be felt throughout OTR, with improved financial accounting and taxpayer accounting records. But, it may have the greatest impact in the Compliance Administration, enabling OTR to collect additional tax revenue by use of automated tools, including a robust case flow system that contains employer and bank account information and is integrated with the data warehouse. A new case management system with scoring tools could assist the agency in better identifying taxpayers who have underreported their tax liability, narrowing the audit pool to those cases more likely to be productive and those that can realistically be worked. Current revenue protection programs appear to create a large volume of audit candidates that the agency is unable to realistically work, with a high percentage of false positives.*

*I would provide a word of caution, however. Full implementation of an ITS will take two to four fiscal years, depending on the complexity and the number of taxes brought into the system. To be successful, it will also require a large and full-time commitment from the OCFO's IT staff and the staff of OTR. I would urge that the resources be provided to OCFO to supplement existing staff so that the primary mission of OTR can continue seamlessly while large numbers of existing employees who are subject matter experts are diverted to the design and implementation of the ITS.*

## **2. Continue Work to Obtain and Implement a New Phone System.**

As noted in the report, the current phone system utilized in the agency's call centers is outdated and does not provide the flexibility required in today's tax administration environment. The Interactive Voice Response system (IVR) does not provide taxpayers with the variety of information they want, resulting in a large number of callers transferring from that system to speak with a customer service representative. The call and correspondence volume in the Customer Service Administration alone is very high, with significant wait times for taxpayers to reach a representative.

With the successful implementation of a new ITS and a new phone system, the Compliance Administration's call center could utilize a predictive dialer to make outbound calls to taxpayers, especially business taxpayers, a valuable tool in collecting past-due returns and liabilities.

A new phone system, used in conjunction with other technology currently available, would also provide the flexibility to permit certain call center employees to telework and receive calls in the phone queue and access taxpayer information from a remote location. Other state taxing jurisdictions have implemented this technology with a resulting increase in productivity and employee morale.

*I would urge the OCFO to continue work to implement the new phone system and install features of the system that will enhance the taxpayer's experience and make OTR's work more effective and efficient, with an eye to enhancing the employee's experience.*

### **3. The adjustment/refund review process needs to be re-evaluated and implemented within the automated processes of the new ITS.**

The adjustment/refund review process has redundant reviews which appear to consume valuable resources, slow processes and produce results that should be evaluated for efficacy. Additional controls were instituted after the 2007 Harriet Walters scandal, but it appears that the controls may be onerous and hamper the efficient work of the agency. The multiple levels of review are not supported by any automated document flow or case processing system used by other jurisdictions that might assist in the review and make the efforts more efficient.

*This issue should be mitigated by the implementation of a new ITS, but I would urge OCFO and OTR to review the current controls to determine if the multiple levels of review can be reduced for at least a portion of the refund population before the new system is installed. The CFO may want to consider bringing in an outside auditing firm to review the current controls and make recommendations.*

**4. New controls on separation of duties for adjustments have created management burdens for each administrative area of the agency and the process should be reviewed to determine if it would be more efficient to create one centralized unit in the agency for adjustments.**

A recent audit cited a lack of proper controls on adjustments, i.e., employees who requested and performed adjustments could also approve them. These adjustments are done throughout the various administrative areas of the agency. As a result of the audit, management in each administrative area has segregated workers into those who can make an adjustment and those who can approve them. Management repeatedly voiced frustration over the impact the segregation of duties was having on the units.

*While the segregation of duties proposed in the audit is necessary, I would urge management of OTR to review the current organization of this function to determine whether it would be more efficient to create a separate organization to handle adjustments agency wide, and implement the controls recommended in the audit within that organization.*

**5. Support functions for OTR could be enhanced.**

The information technology, personnel, procurement, and training functions for OTR are centrally organized under the OCFO. These are support functions for OCFO and OTR is a major customer.

The stated mission of the Office of Chief Information Officer is that OCIO is committed to delivering innovative, cost-effective, and secure IT solutions and infrastructure that support OCFO's programs and initiatives. The CIO has made it clear that he and his office are committed to serving this mission. However, it is equally clear that there are many IT projects of OTR that would enhance efficiency of the agency and provide additional revenue for the District that are languishing, in large part due to lack of resources to complete them. While this is a complaint voiced by many tax agencies throughout the country, it seems even more critical for OTR.

In most organizations, there is a natural tension between the personnel office and the management of the organization. Personnel offices are required to adhere to certain laws and regulations pertaining to hiring, and management simply wants vacancies filled today with a qualified candidate. The tension between OTR and the OCFO's human resources office appears to be greater than the norm, with each administrative head voicing concerns about their inability to fill vacancies in a timely fashion with qualified candidates. One such example of this frustration is the issue of minimum qualifications for the entry level tax auditor positions described earlier in this report. The subject matter experts in the agency, the head of the Compliance Administration and the Deputy CFO for OTR feel strongly that the minimum qualifications are burdensome and are preventing them from filling vacancies efficiently and

effectively. The result is a potential loss of revenue for the District for each month that an auditor vacancy is unfilled. The discussion earlier in this report has shown that other tax organizations in the region have minimum qualifications for similar positions that are less stringent.

*I recommend that the OCFO look for ways to enhance the ability of these support units to serve OTR.*

## **6. Morale of employees is an issue.**

Discussions with most administration heads cited employee morale as an issue. Agency employees have suffered from the fallout of the 2007 scandal, subsequent articles describing the failings of the agency and continued, every day, comments from D.C. residents who are unhappy with OTR. In addition, the hiring of top management brought in from outside the agency, while necessary at the time, has left OTR employees with the impression that there is not a career path for them.

*I would recommend that OTR invest some effort to creating a Leadership Development Program for OTR to identify future leaders within OTR. Several state tax agencies have created these programs and would be willing to share at least the outline of the program with OTR.*

## **7. Information available on the website and outreach to the public could be enhanced.**

Taxpayers and the tax practitioner community in every jurisdiction believe that more general and specific tax information on the tax agency's website is needed to enhance the education of taxpayers and promote voluntary compliance. Tax agencies, on the other hand, are engaged in a balancing act between processing returns and collecting taxes due with existing personnel and the need to devote more resources to the education of taxpayers and outreach to the various segments of the taxpayer community.

My review of OTR's website indicates that they would be well-served in adding informational materials, perhaps including educational videos.

*I would recommend that OTR request additional resources, both personnel and technical, to enhance website material with the goal of increasing voluntary compliance. I would also recommend a review of existing outreach programs to constituent groups to determine if there are additional resources available that would enhance educational opportunities to the taxpayers of the District.*



**8. Review the statutory and regulatory requirements for the lockbox for each tax type with the goal of having the lockbox serve the needs of the District without creating undue administrative burdens and delays in processing for the taxpayers.**

The discussion earlier in this report noted that OTR cannot process any returns or payments for some of the taxes, even if taxpayers send them directly to OTR through the mail or a personal visit to the office. This creates delays in processing these documents and payments for taxpayers and creates the potential for misapplication of payments that taxpayers have made.

*I recommend that the City Council review the bond provisions that contain this prohibition and change it, if possible.*

**9. Explore establishing a new third tier level of appeal for real property tax assessments.**

The current appeal system provides a third level of appeal to the D.C. Superior Court where there is a substantial backlog of real property cases awaiting a hearing and decision. Taxpayers must “pay to play” at this level. Because cases remain unheard by the court and unresolved for extremely long periods, there is enormous pressure on OTR to settle these cases. Creating a new third level of appeal with judges who have real property assessment experience would permit a more timely appeal process at this level. Appeals from this level could then be taken to the Superior Court.

*I recommend exploring the feasibility of establishing a new third tier level of appeal for real property assessments, staffed by personnel with real property assessment backgrounds, with the goal of expediting the resolution of these appeals.*

**LINDA L TANTON**  
**lindaltanton@gmail.com**

**EMPLOYMENT EXPERIENCE:**

**Comptroller of Maryland January 1977 – December 2012**

January 2006 to December 2012–Deputy Comptroller. Operated as COO of agency, directing operations of 1100 employees and collections of more than \$16 billion in revenue each year.

November 1994 to January 2006–Director, Compliance Division. Division responsible for all audit, collection and compliance activities in agency–350 employees.

July 1993 to November 1994–Assistant Director, Compliance Division

June 1980 to July 1993–Assistant Director, Sales and Use Tax Division

January 1977 to June 1980–Special Assistant Attorney General assigned to Retail Sales Tax Division

**Weinberg and Green**

August 1971 to December 1974–paralegal in litigation department

**McCall's Inc**

July 1969 to October 1970–editorial assistant

**The Baltimore Sun**

June 1968 to June 1969–reporter

**EDUCATION:**

1968–BA in Political Science, Wake Forest University

1975–JD, University of Baltimore School of Law

1977–LLM in Taxation, Georgetown University Law Center

*Member of Maryland Bar since 1975*

**BOARDS:**

Former member of Board of Trustees of Calvert School, K-8 private school in Baltimore, MD; chair of development committee

June 2006 to December 2012—member of Maryland Supplemental Retirement Plan board; chair of audit committee

June 2006 to December 2012—member of Federation of Tax Administrators board; president of organization June 2009 to June 2010