

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER**

**AUDIT OF INTERNAL CONTROLS OVER  
MANUAL REFUNDS AT THE  
OFFICE OF TAX AND REVENUE (OTR)**

**OFFICE OF INTEGRITY AND OVERSIGHT**



**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Chief Financial Officer**



**Office of Integrity and Oversight**

**MEMORANDUM**

**TO:** Stephen M. Cordi, Deputy Chief Financial Officer  
Office of Tax and Revenue

**FROM:** Timothy Barry, Executive Director   
Office of Integrity and Oversight

**DATE:** May 13, 2015

**SUBJECT:** Audit of Internal Controls over Manual Refunds at the Office of Tax and Revenue  
(OIO No. 14-01-13 OTR)

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This final report summarizes the results of the Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over Manual Refunds at the Office of Tax and Revenue (OTR).

The objectives of the audit were to: 1) determine the effectiveness of OTR's internal controls over the processing of SOAR Manual Refunds; 2) verify whether the refunds are processed in accordance to required policies and procedures; and 3) determine whether the refunds are properly approved and supported. Our audit found that OTR has adequate internal controls in processing manual refunds in accordance with established Policies and Procedures, and with proper approvals and documentation. However, we found that OTR's Refund Control Unit needs to strengthen, monitor and better manage the tracking of rejected Manual Refunds.

OIO provided 3 recommendations to correct the described deficiency. OTR concurred with the recommendations and agreed to implement the necessary corrective actions. We consider the planned corrective actions to be responsive and meet the intent of the recommendations.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have questions, please contact me at (202) 442-6433, or Mohamad Yusuff, Director of Internal Audit, at (202) 442-8240.

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  
Glen Groff, Director of Operations, OTR  
Bert Molina, Director, Revenue Accounting Administration, OTR

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**AUDIT OF INTERNAL CONTROLS OVER  
MANUAL REFUNDS AT THE OFFICE OF TAX AND REVENUE (OTR)**

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**TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY</b>	<b>Page</b>
OVERVIEW .....	i
CONCLUSIONS.....	i
SUMMARY OF RECOMMENDATIONS .....	ii
MANAGEMENT RESPONSE AND OIO COMMENTS.....	ii
<b>INTRODUCTION</b>	
BACKGROUND.....	1
OBJECTIVES, SCOPE AND METHODOLOGY.....	3
<b>FINDING AND RECOMMENDATIONS</b>	
FINDING: REFUND TRACKING LOG .....	4
<b>EXHIBITS</b>	
EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT.....	7
APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE .....	8

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**AUDIT OF INTERNAL CONTROLS OVER  
MANUAL REFUNDS AT THE OFFICE OF TAX AND REVENUE (OTR)**

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**ACRONYMS**

ITS	Integrated Tax System
OCFO	Office of the Chief Financial Officer
OFOS	Office of Financial Operations and Systems
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RAA	Revenue Accounting Administration
RCU	Refund Control Unit
SOAR	System of Accounting and Reporting

## EXECUTIVE SUMMARY

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### OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) has completed an audit of Internal Controls over Manual Refunds at the Office of Tax and Revenue (OTR). We conducted this audit, which was requested by the Office of Financial Operations and Systems (OFOS) and included in OIO's Audit and Integrity Plan for FY 2014, as part of OIO's oversight responsibility over OCFO agencies.

The objectives of the audit were to determine whether:

- Effective internal controls are in place over the processing of SOAR manual refunds;
- Manual refunds are processed in accordance with required policies and procedures; and
- The refunds are properly approved and adequately supported with appropriate documentation.

### CONCLUSIONS

Overall, our audit revealed that OTR has adequate controls over processing of SOAR Manual Refunds. We selected two statistical samples<sup>1</sup> of 118 manual refunds for each fiscal year (total 236) to test and determine whether the refunds were adequately supported and approved by authorized officials. We found that all the 236 manual refunds tested were supported and approved by the required agency signatories, as required by the Refund Preparation and Review Directives.

However, we found that controls can be further strengthened by better management of the Refund Tracking Log. We noted that, although the Refund Tracking Log is used by the Refund Control Unit (RCU) to track refunds from the time they receive them to the time they are paid, the status of rejected refunds was not always updated. We found 65 rejected refunds in FYs 2013 and 2014 that were not accounted for, and no evidence to show that they had been paid or cancelled.

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<sup>1</sup> The statistical sample criteria for both samples were: Confidence level 95%, materiality level 10%, and auditor's expectation of error 5%.

## **EXECUTIVE SUMMARY**

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### **SUMMARY OF RECOMMENDATIONS**

We directed 3 recommendations to the Deputy Chief Financial Officer, OTR for necessary action to correct the described deficiency. The recommendations center on:

1. Updating the Refund Tracking Log to include the final status of rejected refunds;
2. Monitoring and follow-up on all rejected refunds to ensure that they are returned to RCU within the required 5 days; and
3. Updating the Policies and Procedures to reflect changes in procedures.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

### **MANAGEMENT RESPONSE AND OIO COMMENTS**

OIO received a written response to the draft report from the OTR on April 23, 2015. OTR management concurred with all three of the recommendations and plans to take the necessary corrective actions to address the audit finding. We consider the planned corrective actions to be responsive and meet the intent of the recommendations. A copy of OTR's complete response is included as an Appendix to this report.

## INTRODUCTION

### BACKGROUND

The Office of Tax and Revenue issues refunds to District of Columbia taxpayers that are owed refunds for tax, fees or other type of overpayments. There are two categories of refunds that are issued by OTR. The first category is automated refunds that are issued through the Integrated Tax System (ITS). These refunds are mainly income tax or business tax refunds. The second category of refunds are manually processed and issued through the System of Accounting and Reporting (SOAR), and are referred to as “SOAR manual refunds”. SOAR Manual Refunds are refunds that cannot be system generated and processed through ITS.

The SOAR manual refunds comprise of different categories of tax refunds. The majority of the refunds are real property related and include Court ordered refunds for property assessments, refunds owed to tax sale bidders, and deed recordation and transfer refunds. The manual refunds also include other tax categories such as estate taxes, cigarette taxes, as well as individual taxes, and other taxes that cannot be processed in ITS for technical reasons. Table 1 below represents total manual refunds, by category, paid in FY 2013, and FY 2014.

<b>Table 1: Refunds Processed in FY 2013 and 2014</b>				
<b>Types of Refunds</b>	<b>FY 2013</b>		<b>FY 2014</b>	
	<b>Number of Transactions</b>	<b>Transaction Amount</b>	<b>Number of Transactions</b>	<b>Transaction Amount</b>
Cigarette Taxes	5	\$ 350,370.78	3	\$ 11,869.80
Corporate Franchise Taxes	2	\$ 47,103.50	6	\$ 32,788.78
Deed Recordation Taxes	22	\$ 633,789.94	21	\$ 139,055.44
Deed Transfer Taxes	19	\$ 207,506.81	17	\$ 109,689.27
Economic Interest	0	0	1	\$ 1,254.23
Estate Taxes	76	\$ 2,926,831.12	79	\$ 2,933,429.54
General Sales and Use Tax	27	\$ 46,742.92	40	\$ 45,752.68
Individual Income Taxes	218	\$ 1,370,639.19	312	\$ 2,097,666.82
Motor Vehicle Fuel Taxes	6	\$ 80,699.73	2	\$ 20,879.29
Public Spaces	0	0	1	\$ 1,192.14
Real Property Tax	5,604	\$ 49,029,852.54	4,715	\$ 54,141,517.63
Unincorporated Franchise Tax	4	\$ 5,234.54	8	\$ 3,806,723.95
<b>Totals</b>	<b>5,983</b>	<b>\$54,698,771.07</b>	<b>5,205</b>	<b>\$ 63,341,819.57</b>

Source: RCU

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## INTRODUCTION

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The following table shows the total number and dollar amounts of manual refunds processed during FY 2013 and FY 2014.

<b>Table 2: Manual Refunds Processed in FY 2013 and FY 2014</b>		
<b>Fiscal Year</b>	<b>Amount</b>	<b>Total Refunds</b>
2013	\$ 54,698,771.07	5,983
2014	\$ 63,341,819.57	5,205
<b>Total</b>	<b>\$ 118,040,590.64</b>	11,188

Source: OTR, RCU

### **Refund Control Unit**

The Refund Control Unit (RCU) is part of OTR’s Revenue Accounting Administration (RAA) and is responsible for reviewing and approving all manual refunds. The refunds are approved in accordance to the Refund Preparation and Review Directive (the Directive) that was first issued in November 2007. The Directive has been updated several times, including FY 2013 and FY 2014. The Directive was issued to provide guidelines that would ensure that refund requests are properly tracked, reviewed, approved and disbursed in an efficient and timely manner. The Directive requires that all Manual refunds \$10,000 or more be approved using a multilevel, tiered review based on the dollar amounts. In addition, it requires that Real Property Tax refunds of \$1,000 or more also undergo a multilevel, tiered review. All OTR Administrations that approve manual refunds are required to provide RCU with a list of authorized signatories, their sample signatures, and the dollar amount approval level authorized. The RCU is also required to follow the Refund Processing Procedures contained in the OCFO’s Financial Policies and Procedures Manual.

### Manual Refund Processing

Following is a summarized process that is used by the Refund Control Unit (RCU) to review and approve Manual Refunds:

- Manual refund requests received in RCU from various OTR administrations are logged into the SOAR Refund Tracking Log (Excel) by a Management Analyst or Clerk. This log is used to track the refund until it is approved for payment in the SOAR system.
- The first level of review is done by the Management Analyst or Clerk who receives the refund. At this stage, the refund is reviewed for accuracy and to ensure that all the required documentation is attached and signed by the authorizing signatories. If there are any missing documents, signatures or inaccuracies, the refund is rejected and returned to the OTR Administration that submitted the refund, for correction.

## INTRODUCTION

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- The rejected refunds must be returned to RCU within 5 days with the required information or corrections.
- When all the required support is received, the refunds are assigned to the Revenue Accounting Specialist for processing in the System of Accounting and Reporting (SOAR).
- The second level of review is performed by the Supervisory Revenue Accounting Specialist or the Revenue Accounting Manager. The second level of review determines that the information in SOAR is correct and the supporting documentation and required signatures are included in the refund documents. After this review, the refund is approved for payment and released in SOAR.

### **OBJECTIVES, SCOPE AND METHODOLOGY:**

The objectives of the audit were to determine whether:

- Effective internal controls are in place over the processing of SOAR manual refunds;
- Manual refunds are processed in accordance with required policies and procedures; and
- The refunds are properly approved and adequately supported with appropriate documentation.

In order to accomplish our objectives we tested manual refunds for the period FY 2013 and FY 2014. We interviewed OTR officials responsible for processing SOAR manual refunds. We also reviewed policies, procedures and Directives pertaining to the processing of manual refunds. In addition, we selected two statistical samples of 118 manual refunds for each fiscal year (total 236) to test and determine whether the refunds were adequately supported and approved by authorized officials. We also reviewed how the manual refunds were being tracked and monitored.

We relied on computer processed data from SOAR and ITS. We did not perform a reliability assessment of the computer processed data since a review of SOAR and ITS was conducted by independent auditors during the District's Comprehensive Annual Financial Report Audit for FY 2013 and FY 2014.

We conducted this audit 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 the findings and conclusions based on our audit objectives.

**FINDING AND RECOMMENDATIONS**

**FINDING: REFUND TRACKING LOG**

**SYNOPSIS**

We found that the RCU did not track refunds that were rejected and returned to OTR Administrations. In particular, we found that the Tracking Log showed that 24 rejected refunds in FY 2013 and 41 in FY 2014, had not been returned to RCU for payment. The RCU Policies and Procedures require that all refunds are tracked in the Refund Tracking Log. In addition, all rejected refunds must be returned to RCU within 5 days. The Tracking Log should have the most accurate status of all refunds in order to provide accurate information and ensure all refunds are recorded in the SOAR system. The failure to track rejected refunds could lead to refunds being lost or left unpaid for long periods and may result in additional costs to the District in interest payments.

**DISCUSSION**

We examined the RCU Refund Tracking Logs covering the period October 1, 2012, to September 30, 2014 (24 months). The Refund Tracking Log is used by the RCU to track all the manual refunds from the time they are received until they are approved for payment in the SOAR system. A new Log is created at the start of each month and saved in the RCU data storage drive.

We analyzed all 24 Refund Tracking Logs for FY 2013 and FY 2014, and found that RCU had rejected 197 refunds in FY 2013 and 264 in FY 2014, that were eventually returned to the RCU and were duly paid. However; we found that 24 refunds in FY 2013, and 41 in FY 2014, were rejected by RCU but were not returned and resolved by the responsible administration. Also, there were no notations in the Refund Tracking Log confirming the status of the 65 refunds, whether they had been paid or cancelled. The following table shows the total refunds rejected but not returned to the RCU.

<b>Table 3: Rejected Refunds - FY 2013 and FY 2014</b>		
<b>Fiscal Year</b>	<b>Rejected Refunds Not Returned to RCU</b>	<b>Amount</b>
2013	24	\$ 1,051,960.94
2014	41	\$ 127,806.52
<b>Total</b>	<b>65</b>	<b>\$ 1,179,767.46</b>

Source: RCU

## FINDING AND RECOMMENDATIONS

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The 65 rejected payments comprised different refund categories, but the majority were real property tax reimbursements. The RCU officials stated that they were aware of this issue of accounting for rejected refunds and are working to make improvements in the tracking and monitoring of their status. These officials also stated that they plan to update the Refund Tracking Log to reflect the final disposition of all refunds that are not returned.

### **RECOMMENDATIONS:**

We recommend that the Deputy Chief Financial Officer, OTR:

1. Ensure that RCU updates the Refund Tracking Log to include the final status of rejected refunds.

#### **Management Response (Recommendation 1):**

OTR management concurred with the recommendation and plan to update the SOAR refund tracking Log to include a Final status no later than May 1, 2015.

#### **OIO Comment:**

The planned corrective action is responsive and meets the intent of the recommendation.

2. Ensure that RCU monitors and follows-up on all rejected refunds to verify that they are returned to RCU within the required 5 days.

#### **Management Response (Recommendation 2):**

OTR management concurred with the recommendation and will change the frequency of the SOAR rejection report beginning May 1, 2015.

#### **OIO Comment:**

The planned corrective action is responsive and meets the intent of the recommendation.

## FINDING AND RECOMMENDATIONS

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3. Ensure that RCU updates the Policies and Procedures Manual to reflect any changes that will be made in procedures.

**Management Response (Recommendation 3):**

OTR management concurred with the recommendation and will update the policies and procedures no later than July 1, 2015.

**OIO Comment:**

The planned corrective action is responsive and meets the intent of the recommendation.

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**Exhibit A: Summary of Potential Benefits Resulting from Audit**

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No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status <sup>2</sup>
1	Ensure that RCU updates the Refund Tracking Log to include the final status of rejected refunds.	Compliance/Internal Control	May 1, 2015	Closed
2	Ensure that RCU monitors and follows-up on all rejected refunds to verify that they are returned to RCU within the required 5 days.	Compliance/Internal Control	May 1, 2015	Closed
3	Ensure that RCU updates the Policies and Procedures Manual to reflect any changes that will be made in procedures.	Internal Control	July 1, 2015	Open

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<sup>2</sup> This column provides the status of a 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 is not complete. “Closed” means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management’s response is used. “Unresolved” means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

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## APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF TAX AND REVENUE



Stephen M. Cordi  
Deputy Chief Financial Officer

### MEMORANDUM

**TO:** Timothy Barry  
Executive Director, Office of Integrity and Oversight

**FROM:** Stephen M. Cordi  
Deputy Chief Financial Officer

**DATE:** April 23, 2015

**SUBJECT:** Audit of Internal Controls over Manual Refunds at the Office of Tax and Revenue (OIO No. 14-01-13 OTR)

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This memorandum is in response to your transmittal of April 2, 2015, regarding the above internal audit. The following is OTR's response to the recommendations made by OIO.

**Recommendation 1: Ensure that RCU updates the Refund Tracking Log to include final status of rejected refunds.**

The Refund Control Unit (RCU) manager will update the SOAR Refund Tracking Log to include a "Final Status" column no later than May 1, 2015. This column will be used to indicate whether a rejected SOAR refund has been "paid," in the event that the rejected refund was returned with correction and/or additional documentation needed to issue the refund, or "cancelled," in the event that the refund was not returned within the allotted 5 days, was issued as an ITS refund, or was cancelled by the original requesting administration.

**Recommendation 2: Ensure that RCU monitors and follows-up on all rejected refunds to verify that they are returned to RCU within the required 5 days.**

The RCU manager will change the frequency of the SOAR Rejection Report, sent to each administration Director, from monthly to weekly beginning on May 1, 2015. This will ensure more timely notification of all outstanding rejected SOAR refunds. RCU will also continue to remind administrations of the 5 day return requirement through the verbiage on the SOAR Voucher Rejection form (attached to each rejected refund that is returned to an administration for correction and/or additional documentation), as well as within the body of the SOAR Rejection Report email sent to the administration Director.

**APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE**

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Audit of Internal Controls over Manual Refunds at the Office of Tax and Revenue  
Report Number (OIO No. 14-01-13 OTR)  
April 23, 2015  
Page 2

**Recommendation 3: Ensure that RCU updates the Policies and Procedures Manual to reflect any changes that will be made in procedures.**

RCU will update policies and procedures, no later than July 1, 2015, to reflect the requirement to notate the final status (cancelled or paid) for each rejected SOAR refund listed in the SOAR Refund Tracking Log, as well as the increased frequency of follow-up on rejected refunds. Employees will be trained on the revised procedures following the update.

If you have any questions regarding this response, please contact me, or Bert Molina, Director, Revenue Accounting Administration, at (202) 442-6448.

cc: Glen Groff, Director of Operations, OTR  
Bert Molina