

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

**AUDIT OF THE OFFICE OF TAX AND REVENUE'S
MANAGEMENT OF THE HOMESTEAD AND SENIOR CITIZEN
EXEMPTIONS FOR REAL PROPERTY TAXES**

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: Mohamad K. Yusuff, Interim Executive Director
Office of Integrity and Oversight

DATE: September 5, 2013

SUBJECT: Final Report on the Audit of the Office of Tax and Revenue's Management of the Homestead and Senior Citizen Exemptions for Real Property Taxes (Report Number: OIO-12-1-06-OTR)

This report summarizes the Office of Integrity and Oversight (OIO)'s Audit of the Office of Tax and Revenue (OTR)'s Management of the Homestead and Senior Citizen Exemptions for Real Property Taxes. The overall objective of our audit was to determine whether a system of internal controls was in place to ensure that the homestead deduction and/or senior citizen exemption was provided to eligible recipients and properly supported.

OIO provided eleven (11) recommendations to address the findings cited in the report. OTR concurred with the recommendations and has implemented modifications to address the recommendations or provided target completion dates where applicable. OTR's corrective actions are responsive and meet the intent of the recommendations.

We appreciate the assistance and cooperation that you and your staff provided to OIO during the audit. Should you have any questions related to the draft report or need additional information, you may contact me at 202-442-8240. Your staff may also contact Tisha N. Edwards, Senior Audit Manager, at 202-442-6446.

cc: Kathy Crader, Chief Risk Officer, OCFO
Glen Groff, Director of Operations, OTR
Robert Farr, Director of Real Property, OTR

Audit of the Office of Tax and Revenue's Management of the Homestead and Senior Citizen Exemptions for Real Property Taxes

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Audit of the Office of Tax and Revenue's Management of the Homestead and Senior Citizen Exemptions for Real Property Taxes

ACRONYMS

BoE	Board of Elections
DMV	Department of Motor Vehicles
EDW	Electronic Data Warehouse
E-File	Electronic Filing
HD	Homestead Deduction
HSU	Homestead Unit
ITS	Integrated Tax System
OCIO	Office of the Chief Information Officer
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RPTA	Real Property Tax Administration
SC	Senior Citizen Tax Relief for Real Property
TSG	Tax Systems Group

EXECUTIVE SUMMARY

OVERVIEW

The Office of Integrity and Oversight (OIO) conducted an audit of the Office of Tax and Revenue's (OTR) management of the homestead deduction and senior citizen tax relief for real property taxes. Our audit focused on applications included in the November 2011 automated matching program. This audit was included in our FY 2012 Audit and Integrity Plan. OIO's overall audit objectives were to: (1) determine whether a system of internal controls with written policies and procedures existed for the homestead and senior citizen programs; (2) verify that internal controls are in place to ensure that applications are effectively vetted and, where necessary, supporting documentation is maintained; and (3) determine whether individuals receiving the homestead deduction and/or senior citizen tax relief have filed the appropriate applications and documentation, and whether these have been vetted by the OTR.

CONCLUSIONS

The audit disclosed that the RPTA management of the homestead and senior citizen tax relief exemption program requires improvement. We noted deficiencies in the process to identify ineligible homestead recipients, recipients receiving the homestead deduction on multiple properties, a lack of a process to ensure that citizens receiving the senior citizen tax relief maintained the requirements to receive the benefit, and inadequate documentation to substantiate the granting of the homestead credit.

Specifically, the automated procedures used by the RPTA to match homestead applications to records contained in the Integrated Tax System (ITS) and Electronic Data Warehouse (EDW) were not effective in identifying applicants who were not eligible to receive the homestead deduction or senior citizen tax relief. We noted property owners receiving the homestead deductions with multiple homesteads, rental properties, as well as being non-District residents.

Our audit also found that the Homestead Unit (HSU) was not actively identifying households receiving the senior citizen exemptions that did not meet income eligibility requirements. Our audit identified 281 households receiving the senior citizen tax relief although their federal adjusted gross income exceeded \$100,000 based on the 2010 tax year. This was due in part to the lack of procedures in place to perform yearly income verification after the senior citizen tax relief is granted.

We noted that during the course of our audit OTR implemented corrective actions to address the prior years' weaknesses identified by the District's external auditors in the "Yellow Book" report. For example, the unit receives a monthly sales report from the Recorder of Deeds, which it uses to identify property sold during the month that is receiving the Homestead Deduction (HD) or Senior Citizen Tax Relief for Real Property (SC). When such property is identified, the tax benefit is ended until the new owner submits a properly completed application. The HSU also uses the Metropolitan Regional Information System to identify rental property in the District that is receiving the HD or SC. In April 2012, the unit developed an automated retrieval process

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to identify owners receiving HD on multiple properties. Subsequent to our audit work, the HSU has implemented an income monitoring tool to identify seniors who have exceeded the income threshold. The unit is continuing to remove the senior citizen exemption granted to ineligible recipients.

These efforts have helped to improve the management of the program, but as noted in this report, improvement is still needed in many areas.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS:

We directed 13 recommendations to the Deputy Chief Financial Officer, OTR. The recommendations include in part:

1. Data capture the social security numbers to use as the key search criterion for all automated searches and queries to identify ineligible taxpayers that are receiving the homestead deduction or senior citizen credits.
2. Modify the automated matching program to improve its effectiveness in identifying ineligible homestead applicants. Specifically, the ITS match should verify that the applicant tax filing is in good status and that the filing address matches the property address; also the DMV match should take into consideration the expiration dates of the applicants license and/or registration.
3. Finalize the policy and procedures manual to document the process that the HSU should follow.
4. Increase efforts to identify rental properties receiving the homestead deduction through coordination with the DC Department of Consumer and Regulatory Affairs.

A summary of the potential benefits arising from this audit is shown at **Exhibit A**.

OIO received a written response from OTR on August 9, 2013. OTR concurred with the recommendations and has implemented corrective actions for several recommendations, and provided target completion dates for others as applicable. We reviewed the agency responses and concluded that OTR's corrective actions are responsive and meet the intent of the recommendations. A copy of the complete response is included in this report as **Appendix 1**.

INTRODUCTION

BACKGROUND

The Office of Tax and Revenue (OTR) is responsible for the assessment and collection of tax revenues on behalf of the District of Columbia Government. The largest single tax revenue source for the District is the real property tax. The real property tax program is managed by the OTR Real Property Tax Administration (RPTA). RPTA consists of three divisions: the Assessment Division, Assessment Services Division, and the Recorder of Deeds. The Homestead Unit (HSU), which is responsible for the administration of the Homestead, Senior Citizen and Disability exemption programs, is organizationally located within the Assessment Services Division.

Homestead Deduction Benefit

The homestead deduction was authorized for residential houses and condominium units by D.C. Code § 47-850 which states, in part, “ ... The Mayor shall deduct \$67,500¹... from the assessed value of the real property which qualifies as a homestead.” To qualify for the homestead deduction, the property must be the owner’s permanent residence and cannot have more than 5 rental units.

In addition to the \$67,500 reduction in the assessed value, the credit also imposes a 10 percent cap on the amount that the assessed value can increase each year. To receive the deduction, the owner must file a completed application with the HSU. A property owner cannot claim the homestead deduction on more than one property.

Senior Citizen and Disability Tax Relief

Senior Citizen Tax Relief (SC) is authorized under DC Code §47-863 and provides qualified senior citizens with a fifty percent reduction of their property tax liability. To qualify for the SC relief, the individual must own fifty percent or more of the property and be 65 years of age or older; also, the property must be the individual’s permanent residence, with a federal adjusted gross income of the entire household less than \$100,000. The code also provides the same tax relief for homeowners who have a permanent and total disability. The requirements for the disability tax relief are the same as for the senior citizen benefit with the exception of age. The applicant is required to provide supporting documentation from the Social Security Administration.

Calculation of Tax Credits

Property owners receiving the HD have a \$67,500 reduction from the assessed value of their property. Eligible senior citizen homeowners receive a fifty percent reduction of their tax liability in addition to the saving from the HD. The 2012 property tax rate for Class 1 property

¹ The homestead deduction amount was increased to \$69,100 in Real Property Tax Year 2013 (October 1, 2012-September 30, 2013). For the purpose of our audit and projection amounts, we will refer to the \$67,500 amount in effect for the period covered in our audit.

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was \$.85 per \$100 of assessed value, and for owners receiving the SC, the tax rate was \$.425 per \$100 of assessed value (50 percent reduction). Table 1 shows the tax liability for a property not receiving a tax credit compared to an owner receiving the HD, or the SC.

Table 1: Comparison of Tax Liability for Class 1 Property Receiving no Tax Credit, the Homestead Deduction, and the Senior Citizen Relief

	No Tax Credit	Homestead Deduction	Senior Citizen Relief
Property Assessed Value	\$500,000.00	\$500,000.00	\$500,000.00
Deduction Amount	.00	- 67,500.00	- 67,500.00
Difference After Credit	500,000.00	432,500.00	432,500.00
Tax Rate	.0085	.0085	.00425
Annual Tax Liability	\$ 4,250.00	\$ 3,676.25	\$ 1,838.13

In this example, the HD deduction saved the owner \$573.75 annually in tax liability, and the SC deduction saved the owner \$2,411.87 in property taxes. Because the SC is a fifty percent reduction in tax liability, the annual saving to the homeowner could be greater or less depending on the assessed value of the property.

As of January 2012, an estimated 77,000 homeowners were receiving the homestead credit, and approximately 18,300 were receiving the senior citizen tax relief. According to an estimate developed by the HSU, this resulted in over \$74 million in property tax reductions for District homeowners.

PRIOR HOMESTEAD AUDITS

The District of Columbia Office of the Inspector General (OIG) conducted an audit of the homestead program: "Audit of the Homestead Deduction and Senior Citizen Real Property Tax Relief Programs" (OIG No. 04-1-27AT, March 23, 2006.). The report contained four findings related to the program. The first disclosed that some ineligible property owners received the homestead or senior citizen deduction. The owners were ineligible because they had deductions on multiple properties, and also on leased properties. This resulted because of inadequate internal controls over the application process, lack of coordination between licensing agencies for renting property and OTR to identify rental properties, and OTR did not require owners to submit sufficient documentation with their application. The second finding addressed the lack of formal policies and procedures for administering the program. The third finding dealt with OTR being unable to provide completed applications for all request owners receiving the deduction. This was an indication that some home owners may not have completed the application and may be receiving the credit because the prior owner had qualified for it. The last finding addressed the reconfirmation process and concluded that OTR did not have a process to ensure each property owner was periodically audited and was still qualified for the credit.

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The District's Independent Auditors' Report on Internal Control and Compliance Over Financial Reporting for Fiscal Years Ended September 30, 2008, and September 30, 2010, cited the homestead deduction program as a significant deficiency. The 2008 report found that there was no centralized approval process with a consistent audit trail; there were individuals receiving credits on multiple properties; supporting documentation was missing from the application files; and entities such as Limited Liability Corporations, which are not eligible for the homestead, were receiving the credit. In the 2010 report, the external auditors found the OTR was not adhering to its existing policies and procedures regarding maintenance of homestead tax credit documentation and granting of real property exemptions.

OIO noted during our audit that OTR implemented appropriate corrective actions to address the weaknesses identified by the external auditors. The HSU now receives a monthly sales report from the Recorder of Deeds which it uses to identify property sold during the month that is receiving the HD or SC. When such property is identified, the tax benefit is ended until the new owner submits a properly completed application. The HSU also uses the Metropolitan Regional Information System to identify rental property in the District that is receiving the HD or SC.

In April 2012, the unit developed an automated retrieval to identify owners receiving HD on multiple properties. These efforts have helped to improve the management of the program, but as noted in this report, improvement is still needed.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to: (1) determine whether a system of internal controls with written policies and procedures existed for the homestead and senior citizen/disabled taxpayer programs; (2) verify that internal controls are in place to ensure that applications are effectively vetted and, where necessary, supporting documentation is maintained; and (3) determine whether individuals receiving the homestead deduction and/or senior citizen/disabled taxpayer tax relief have filed the appropriate application and documentation, and whether these have been vetted by the OTR.

In order to accomplish these objectives, we reviewed a sample of 184 applications from a universe of 7,076, that were approved by the HSU using automated matching with the ITS. We also reviewed 95 applications from a universe of 540 applications that were approved by matching procedures with the Department of Motor Vehicles (DMV) records in the Electronic Data Warehouse (EDW). We limited our review to the applications that are approved by the match process as these applications are not subject to a manual review or verification by the HSU auditors.

To determine eligibility, we examined information in the ITS, EDW, and the Electronic Filing (E-File) to verify the applicant was compliant with the District's income tax filing requirement, was a bona fide DC resident, residing at the property, met age and income requirements where applicable, and was not receiving the HD/SC on more than one property. We also interviewed, and obtained information from, the HSU manager and unit auditors.

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We relied on computer-processed data from ITS regarding tax filing information. We did not perform a formal reliability assessment of the computer-processed data because the ITS system reliability tests were performed previously as part of the Comprehensive Annual Financial Report audit.

This performance audit was conducted 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 our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

FINDING 1: AUTOMATED MATCHING PROCESS

SYNOPSIS

Our audit disclosed that the automated matching process used by the RPTA to verify the residency of applicants is not operating effectively and needs improvement. The matching process does not take into account all pertinent factors such as tax returns filed using an address different from the homestead property; part year returns filed that used a non-District filing address; and tax returns that claimed rental income from the homestead property, multiple homesteads, expired licenses and vehicle registrations. As a result, ineligible homestead recipients are not always detected.

DISCUSSION

In April 2011, the HSU instituted new procedures to streamline the application process for HD and SC tax relief applications. Prior to April 2011, an applicant for HD/SC was required to submit documentation with the application to substantiate residency. The new procedures allowed the HSU to grant the homestead deduction or senior citizen tax credit without proof of residency and instead relied on automated match procedures to verify residency of the applicants processed during the period.

When an HD application is received, the HSU program specialist reviews the application to ensure it is complete, verifies the ownership in the Integrated Tax System (ITS), and if the applicant identified other properties he/she owned in DC, the HSU program specialist verifies those properties are not receiving the HD/SC. If everything agrees, the HD is granted. For SC applications, the HSU program specialist verifies the age and income of the applicant. The HSU uses the ITS to verify that the prior year income was less than \$100,000 and the Electronic Data Warehouse(EDW) to verify the applicant is over 65.

If the HSU cannot verify that all of the requirements are met, the application is denied and returned to the applicant explaining the reason for the denial. Applicants for the disabled homeowner deduction are required to provide documentation that the Social Security Administration has determined that the owner is permanently and totally disabled. After the HSU initial review, the applications are scanned into a database to be used for the automated match process.

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Since Homeowners are no longer required to provide documentation to substantiate residency, the HSU relies on an automated match process run by the Office of the Chief Information Officer (CIO) Tax Systems Group (TSG) to verify residency. The automated match compares all applications processed by the HSU to either the ITS tax records or the EDW. Applications that do not match ITS or EDW records are flagged and audited manually by the HSU. If the HSU auditors cannot verify that the owner was eligible for the property credit, a letter is sent requesting the owner to submit documentation to prove residency at the property. If the owner fails to submit proof, the HD is ended.

The automated match performed by the TSG to verify the applicant's permanent residence is done in two parts. First, the applications are matched to tax data in the ITS system. In the second phase, those records that *did not* match ITS records are matched against the EDW. All of the applications that matched either ITS or EDW records are automatically approved; and those that didn't, are manually reviewed by the HSU to verify that the property was the applicant's permanent residence.

OIO obtained the most recent match completed by TSG in November 2011. The November 2011 match included 8,740 HD/SC applications. The results of the TSG automated match were as follows:

Table 2: November 2011 Automated Match Results

Results	Records Matched	Percentage
ITS Match	7,076	81%
EDW(DMV/BoE) Match	663	8%
Matched Records	7,739	89%
No Match	1,001	11%
Total Records	8,740	100%

The HSU policy is to review the applications that do not match records in the ITS or EDW databases; therefore, we focused our audit on those applications that were identified as matching ITS or EDW and automatically approved.

We developed two statistical samples; one from the applications that matched ITS, and the other from the applications that matched the EDW records.

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ITS Match

We examined a statistical sample² of 184 homestead applications from the universe of 7,076 applications that were automatically approved as meeting the HD residency requirement based on information on the application matching records in the ITS.

We performed a detailed analysis of each of the sample items to verify residency. Our analysis included verifying if a current DC tax return was filed using the property address; determining whether the applicant had a driver's license, voter registration, and/or car registered in the District and verifying the address on those items matched the property address on the HD application. We also verified ownership of properties that were listed as prior residences in ITS or EDW to determine if the applicant owned those properties, and, if so, verified that the applicant was not also receiving the HD on that property.

Based on our review of the 184 applications in the sample, we determined that 12 HD recipients and 4 SC recipients were not eligible to receive the benefit for the following reasons:

Table 3: Ineligible Homestead Recipients in ITS Match

Error Type	Number of Instances	Percentage
Multiple Homestead	6	37.50%
Residency	3	18.75%
Rental Property	3	18.75%
Total Ineligible Homestead	12	
Ineligible Senior Citizen Exemption Recipients		
Income exceeded 100,000	3	18.75%
Did not meet Primary Domicile Requirement	1	06.25%
Total Ineligible Senior Citizens	4	25.00%
TOTAL ERRORS	16	

It appears that the ITS match deems a record a match if the name and social security number on the application match current tax records in the ITS database. This logic did not consider pertinent factors; such as, comparing the address on the application to the filing address on the income tax return; flagging part year returns that used a non-district filing address; and identifying properties that showed rental income from the homestead property.

For example, one of the applicants OIO deemed ineligible, filed a 2010 part year return using a non-District filing address and stated they were a resident from January 2010 to October 2010.

² The parameters for the statistical sample were: 95% confidence level, 5% materiality level 5 percent, and 2% auditor expectation of error.

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This was a definite indication that the owner no longer resided in the District, yet this application was approved and received no manual review by the HSU.

EDW Match

The results of the EDW automated match are divided into three sections; applications that match BoE records, applications that match both BoE and DMV, and applications that match DMV records. We examined a statistical sample³ of 95 homestead applications from the 540 applications that matched the DMV⁴. We reviewed each of the 95 sample applications to verify residency by reviewing records in the EDW and ITS systems.

Based on our review of the DMV match sample, we concluded 25 of the 95 applications reviewed (26 percent) were not eligible for the HD/SC tax benefits. The reasons for the exceptions were as follows:

Table 4: Ineligible Homestead Recipients from EDW Match

Error Type	Number of instances	Percentage
No Tax Return Filed	14	56%
Expired DMV Documentation	3*	12%
Residency	5**	20%
Owner Deceased	1	4%
SC – Not Over 65	1	4%
SC – Income Exceeded \$100,000	1	
Total Errors	25	

* Included 1 Senior Citizen Tax Relief and 2 Homestead recipients

** Included 1 Disability and 2 Homestead Recipients.

Of the three SC recipients identified, one did not meet the age requirement, one exceeded the household \$100,000 income limit, and one did not have any proof of residency except a car registration that expired in 2004.

It appears these errors were not identified because the EDW match is designed to approve an application if an applicant has a voter registration, D.C. driver's license, or a car registered in the District; however, it does not take into consideration the expiration date of the documentation.

³ The parameters for the statistical sample were: 95% confidence level, 5% materiality level 5 percent, and 1% auditor expectation of error, an interval size of 5.68 and tolerable errors of 1.

⁴ We used the applications that matched DMV as it had a universe of 540 applications which was the largest universe of the three EDW matches.

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Unaudited Applications

Items that are not matched in the ITS or EDW Matches are reviewed by the HSU auditors. We did not sample the non-matched applications reviewed by the HSU; however, we reviewed results of the HSU audit and found that the unit audited 803 of the 1,001 applications that did not match with ITS or EDW. Of the 803 audited, the HSU confirmed the residency of 543 applicants, and sent letters to 260 applicants requesting supporting documentation to prove residency. The remaining 198 applications were not included in the audit and were not reviewed by the HSU.

We did a cursory review of these 198 applications in ITS and noted the following:

Table 5: Unaudited Homestead Applications

Review Results	Number of Instances
HD Denied	80
Receiving the HD	79
Receiving HD and SC/Disability	19
Low Income Exemption	17
SSL did not agree to ITS	3
Total Unaudited Applications	198

We noted that 18 of the 79 applications receiving the HD were ineligible either because they had no residency indicators, paid no DC tax, or had a non-District address. We found one (1) ineligible recipient from the 19 receiving the senior/disability credit. In this instance, the property was sold and the new owner was not eligible for the disability credit but it was never stopped when ownership of the property was transferred.

These properties have been referred to the HSU for further review and appropriate action.

RECOMMENDATIONS:

We recommend that the Deputy Chief Financial Officer (DCFO), OTR:

1. Data capture the social security number to use as the key search criteria for all automated searches and queries to identify ineligible taxpayers that are receiving the homestead deduction or senior citizen credits.
2. Modify the ITS match to improve its effectiveness in identifying ineligible homestead applicants. Specifically, the ITS match should verify that the applicant is current with tax filing and that the filing address matches the property address.
3. Modify the EDW match to take into consideration the expiration dates of the applicant's license and/or registration.

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4. Increase efforts to identify rental properties receiving the homestead deduction through an SSL match with the DC Department of Consumer and Regulatory Affairs.
5. Establish procedures to ensure that all applications identified as non-matches are reviewed to verify eligibility for the tax credit.

MANAGEMENT RESPONSES AND OIO COMMENTS

Management Response (Recommendation 1)

OTR concurred with the recommendation and began capturing social security numbers on February 22, 2013 through its automated report received from the Tax Systems Group. As a result of having this vital and unique piece of information, the Homestead Unit has been able to increase audit efforts.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 2)

OTR concurred with the recommendation and recently fine tuned the automated matching program by clarifying the search criteria with TSG to provide the expiration date of a drivers license and provide a report when the premise address in ITS differs from the address used to file income taxes.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 3)

OTR concurred with the recommendation and revised the automated matching program to include expiration date of a driver's license as part of the 6-month data bounce.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

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Management Response (Recommendation 4)

OTR concurred with the recommendation and currently engages in the following efforts to identify rental properties which may be receiving the homestead credit. The efforts include review of MRIS, review of the Schedule E from the Integrated Tax System, and working with DCRA in streamlining a report that would list name, address, and any other key indicators.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 5)

OTR concurred with the recommendation and is currently rewriting policies and procedures and will ensure that the non-matches are reviewed for eligibility. These revised procedures will be in place by September 30, 2013.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

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FINDING 2: MULTIPLE HOMESTEADS

SYNOPSIS:

Our audit identified property owners receiving multiple homestead deductions. This was the result of an inadequate system to identify multiple homestead recipients. Although the unit instituted a new tool to identify multiple homestead recipients, we found that it is not fully effective. This issue was previously reported in 2006 by the District's Office of the Inspector General and in 2008 by the District's independent auditors in the report on internal controls.

DISCUSSION

Six of the twelve owners we identified as ineligible for the homestead deduction, as noted in Finding 1, received the HD on more than one property. DC Code §47-850 states that homestead is only allowed on the taxpayer's permanent residence. During the course of our audit, it was brought to our attention that the HSU developed a procedure to identify duplicate homesteads; however, the six owners we identified were not detected by the HSU.

In April 2012, the HSU developed a procedure to review the public extract database (database) to identify properties that are receiving the HD and have the same owner name. The database contains 95,000 records and is sorted on the owners name field which includes the first, middle and last initial in the same field. Due to the large volume of records in the database, the HSU limited their April 2012 duplicate report review to names starting with A through the letter E.

This review process enabled the HSU to identify some multiple HDs, but the process is not totally effective. Our audit found that unless the name on the deed is recorded exactly the same on all property records, it will not be identified as a potential owner claiming multiple HDs. For example, of the ineligible recipients we identified in our ITS sample, two (2) had names that begin with the letter A, but were not identified as having a double HD in the HSU's review of the April duplicate homestead report. In both cases, one deed was recorded with the first name, middle initial and last name; and on the other, it was recorded with just the first and last name. This resulted in names that were not identical; therefore, the HSU did not detect the multiple homesteads. We also noted that using a "name-sort" is not effective with common names such as John Smith. While the name will appear together in the sort, each occurrence could be a different person and a legitimate HD.

The HSU relies on the integrity of the applicant to prevent the granting of multiple HDs. The HD application does ask the applicant to identify all properties owned in the District; however, if the owner doesn't answer the question truthfully, the multiple deductions can go undetected. Of

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the 6 multiple HDs identified in our sample; 2 did not answer the question on whether they owned other property in the District.

RECOMMENDATIONS:

We recommend the that the DCFO, OTR:

6. Develop a query that searches the homestead data base using a unique identifier such as social security number to identify owners that are receiving multiple homestead deductions.
7. Impose a penalty on the taxpayer if it is found that they did not answer the application questions truthfully.

Management Response (Recommendation 6)

OTR concurred with the recommendation and has prepared an RFP to procure the services of a vendor who will have an automated solution that makes it easy for OTR to submit data batches containing minimal homestead and senior credit input information for cross matching. This service will also cross check for duplicate homestead deductions within the district.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 7)

OTR concurred with the recommendation and will discuss the options available with legal to determine appropriate penalties if the taxpayer does not answer the questions on the homestead truthfully. Additional legislation will be sought if it is felt that it is necessary.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

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FINDING 3: INELIGIBLE SENIOR CITIZEN TAX RELIEF RECIPIENTS

SYNOPSIS

The HSU did not ensure that only eligible senior citizens receive the senior citizen tax relief benefit. Our audit identified households receiving the senior citizen tax relief although their federal adjusted gross income exceeded the \$100,000 threshold. We found that the Homestead Unit did not have procedures or controls in place to perform a yearly verification of income after the senior citizen tax relief is granted.

DISCUSSION:

DC Code §47-863 provides property tax relief for eligible senior citizens. The Senior Citizen Tax Relief allows eligible taxpayers to reduce their property tax by 50%. To qualify, the applicant must meet the following requirements: own fifty percent or more of the property, be 65 years of age or older, the property must be the applicant's permanent residence, and the federal adjusted gross income of the entire household must be less than \$100,000. The HSU uses the prior tax year to determine eligibility for granting the senior citizen exemption. If all of the qualifications are met, the individual is entitled to a fifty percent reduction of the property's annual real estate tax.

OIO performed targeted testing to identify taxpayers that may not be eligible for the senior citizen exemption based on income requirements. OIO used the ITS Data warehouse to generate two listings to perform our testing. First, we identified taxpayers that were receiving the Senior Citizen Exemption with an open end date equal to 12/31/9999. Second, we identified TY 2010 filers with age greater than 65 and federal adjusted gross income greater than \$100,000.

The lack of a social security number in the RPT file hindered our ability to obtain the expected match; therefore, to complete our testing, we matched the listings based on addresses. This match identified 281 households receiving the exemption although the federal adjusted gross income exceeded the income limit.

OIO inquired of the HSU as to the process to monitor compliance with the requirements, and we were told by the supervisor and audit staff that once the senior citizen exemption is granted, there is no subsequent review to ensure the eligibility requirements are met. Instead, it is deemed the taxpayer's responsibility to inform the HSU of any change and to request removal of the exemption.

At our preliminary briefing held on December 18, 2012, OIO shared this information and subsequently shared our query with the OCIO/TSG. A report was produced by TSG and

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provided to the HSU to identify the taxpayers who exceeded income thresholds. At the time of this report, the HSU is removing the exemption from ineligible senior citizens based on income.

RECOMMENDATIONS:

We recommend that the DCFO, OTR:

8. Continue to review the senior citizen exception report and remove the deduction from ineligible recipients.
9. Develop automated procedures to verify the income of households receiving senior citizen tax relief on a semi-annual basis.

Management Response (Recommendation 8)

OTR concurred with the recommendation and will continue to review the senior citizen exception report and remove the deduction from ineligible recipients.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 9)

OTR concurred with the recommendation and is verifying the income of households receiving Senior Citizen Tax Relief. The verification will be done annually since OTR receives reports of income only annually.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 4: POLICIES AND PROCEDURES

SYNOPSIS

The HSU desk-top standard operating policy and procedures handbook, dated October 2012, is still in draft status, although we were told by HSU personnel it is the unit's "standard procedures." In our review of the draft handbook, we noted that the procedures require the HSU to document in ITS the rationale and reason for HD decisions for each individual property record in ITS. However, the HSU did not consistently follow the guidance provided in Chapter 7 of the desktop handbook relating to: "ITS Standardized Notes," which prescribe the content of the notes and give templates as format examples.

DISCUSSION

The HSU developed a standard operating policy and procedures handbook; however, at the time of our audit, the handbook was still in draft form. We found that the policies and procedure are not always followed, and in some cases, the notes in ITS do not provide the rationale for granting or removing a homestead deduction.

In our audit, we noted several instances where the guidance for ITS standardized notes was not followed. For example, an ITS Note entered by the former Homestead Manager dated September 18, 2011, stated: "according to the Social Security Death Index owner died October 17, 2010." The HD and SC were subsequently ended October 1, 2010. This note did document the owners full name and correct date of birth; however, in an ITS Note, dated November 8, 2011 (2 months later), an HSU employee stated that the unit received a HD application 10/17/11 and the HD was granted effective TY 2012 (October 01, 2011). There is no mention of the September 18, 2011 Note stating the owner was deceased, or that the owner was still listed as the sole owner of the property. Additionally, there was no documented rationale for restarting the HD on this property or mention of who submitted the application since it was received a year after the owner reportedly died.

Chapter 7 of the draft desktop handbook: "ITS Standardize Notes" directs HSU employees to provide ITS notes that speak to the rationale for the granting or removal of a homestead. According to the guidance in the desk top handbook, ITS Notes should document the date; action taken; such as, approval, denial, removal appeal; reason for action; tax period affected; and date the letter or notification was sent to the taxpayer. There should be a clear reason as to why a HD was started, ended, or denied. Adequate supporting documentation should be maintained to provide the rationale for granting or denying applications.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATIONS:

We recommend that the DCFO, OTR:

10. Finalize the policy and procedures manual to document the process that the HSU should follow.
11. Require managers regularly review notes entered by HSU staff to ensure compliance with the documentation standards.

Management Response (Recommendation 10)

OTR concurred with the recommendation and ASD management is actively working on updating the Homestead and Senior Credit Policies and Procedures Manual. These revised procedures will be in place by September 2013.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

Management Response (Recommendation 11)

OTR concurred with the recommendation and will require that managers regularly review notes entered by HSU staff to ensure compliance with the documented standards. These revised procedures will be in place by September 30, 2013.

OIO Comment

OTR's corrective action is responsive and meets the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

Number	Recommendation	Type of Benefit	Agency Reported Completion Date	Status⁵
1	Data capture the social security number to use as the key search criteria for all automated searches and queries to identify ineligible taxpayers that are receiving the homestead deduction or senior citizen credits.	Effectiveness	February 22, 2013	Closed
2	Modify the ITS match to improve its effectiveness in identifying ineligible homestead applicants. Specifically, the ITS match should verify that the applicant is current with tax filing and that the filing address matches the property address;	Efficiency and Effectiveness	February 22, 2013	Closed
3	Modify the EDW match to take into consideration the expiration dates of the applicant's license and/or registration.	Efficiency and Effectiveness	February 22, 2013	Closed
4	Increase efforts to identify rental properties receiving the homestead deduction through coordination with DC DCRA	Efficiency and effectiveness	November 1, 2013	Open
5	Establish procedure to ensure that all non-matches are reviewed	Effectiveness	September 30, 2013	Open

⁵ This column provides the status of the recommendation as of the report date. For final reports "Open" means management and OIO are in agreement on the action to be taken, but the action is not complete. "Closed" means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management's response was used. "Unresolved" means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to correct the condition.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS FROM AUDIT

Recommendation	Potential Benefit	Type of Benefit	Agency Reported Completion Date	Status
6	Develop a query that searches the homestead database to identify multiple homesteads.	Effectiveness	March 1, 2013	Closed
7	Impose a penalty on taxpayers that do not answer application questions truthfully	Compliance	August 8, 2013	Closed
8	Continue to review the senior citizen exception report and remove the deduction from ineligible recipients	Monetary Benefit	August 8, 2013	Closed
9	Develop automated procedures to verify income of households receiving the senior citizen tax relief on a semi-annual basis.	Efficiency and Effectiveness	August 8, 2013	Closed
10	Finalize the policy and procedures manual to document the process the HSU should follow.	Compliance	September 30, 2013	Open
11	Require managers regularly review notes entered by HSU staff to ensure compliance with the documentation standards.	Compliance	September 30, 2013	Open

APPENDIX 1: OFFICE OF TAX AND REVENUE RESPONSE

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: Mohammad K. Yusufi, Executive Director
Office of Integrity and Oversight

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

DATE: August 8, 2013

SUBJECT: **DRAFT REPORT:** Audit of the Office of Tax and Revenue's Management of the Homestead and Senior Citizen Exemptions for Real Property Taxes (Report Number: OIO-12-1-06-OTR)

The Office of Tax and Revenue's (OTR) responses to the Office of Integrity and Oversight (OIO) Report Number 12-1-06-OTR are as follows:

RECOMMENDATIONS and RESPONSES

- 1.) **Data capture the social security numbers to use as the key search criteria for all automated searches and queries to identify ineligible taxpayers that are receiving the homestead deduction or senior citizens credits.**

Response:

OTR began to capture social security numbers on February 22, 2013 through its automated report received from the Tax Systems Group (TSG). As a result of having this vital and unique piece of information, the Homestead Unit has been able to accomplish the following audit efforts.

- a. Auditors search ITS's Income Tax database to verify the federal AGI requirement;
- b. Auditors search ITS's Income Tax database and review the Schedule E to verify that the property owner is not renting a property and receiving multiple homestead;
- c. Auditors can search the Voter Registration database more efficiently;
- d. Auditors can search Clear and verify the age for seniors, ownership of other properties, voter information, vehicle registration, driver license information and decease persons.

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Searching Clear, the Database Warehouse, and ITS/Income Tax System is extremely more efficient and effective using this key search criteria.

- 2.) **Modify the automated matching program to improve its effectiveness in identifying ineligible homestead applicants. Specifically, the ITS match should verify that the applicant's tax filing is in good status and that the filing address matches the property address; and the DMV match should take into consideration the expiration dates of the applicants license and/or registration.**

Response:

The automated matching program was recently fine tuned by clarifying the search criteria with TSG. For example, TSG can now provide us with the expiration date of a driver's license as part of the portfolio 6-month data bounce; TSG is reviewing our requirements to provide us with a monthly report which would give us SSLs where the premise address in ITS differs from the address used to file income taxes, which can be found in the ITS/Income Tax System.

- 3.) **Modify the EDW match to take into consideration the expiration dates of the applicant's license and/or registration.**

Response:

TSG can now provide us with the expiration date of a driver's license as part of the portfolio 6-month data bounce. This is now taken into consideration when reviewing the data in ITS.

- 4.) **Increase efforts to identify rental properties receiving the homestead deduction through coordination with the DC Department of Consumer and Regulatory Affairs.**

Response:

The Homestead Unit currently engages on the following efforts to identify rental properties which may be receiving the homestead credit:

1. Manual review of a report from Metropolitan Regional Information System (MRIS) which identifies the properties that are listed for rent. This is reviewed quarterly through a manual process by one of the auditors;
2. Review of the Schedule E from the Income Tax System. Anyone receiving income from a rental property is obligated to report it; and
3. OTR is actively working with DCRA in streamlining a report that would list the name, address and any other key indicators.

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- 5.) Establish procedures to ensure that all Applications identified as non-matches are reviewed to verify eligibility for the credit.**

Response:

OTR is currently rewriting the policies and procedures for the homestead and senior citizen unit and will ensure that the non-matches are reviewed for eligibility. These revised procedures will be in place by September 30, 2013.

- 6.) Develop a query that searches the homestead database using a unique identifier such as social security numbers to identify owners that are receiving multiple homestead deductions.**

Response:

OTR has prepared an RFP to procure a vender who will have an automated solution that makes it easy for OTR to submit data batches containing minimal homestead and senior credit input information (i.e. social security number, address, date of birth and full name) for cross-matching against public and proprietary databases, giving OTR access across jurisdictions in the United States. This will also cross check for duplicate homestead deductions within the district.

- 7.) Impose a penalty on the taxpayer if it is found that they did not answer the application questions truthfully.**

Response:

OTR will discuss the options available with legal to determine appropriate penalties if the taxpayer does not answer the questions on the homestead truthfully. Additional legislation will be sought if it is felt that it is necessary.

- 8.) Continue to review the senior citizen exception report and remove the deduction from ineligible recipients.**

Response:

OTR will continue to review the senior citizen exception report and remove the deduction from ineligible recipients.

- 9.) Develop automated procedures to verify the income of households receiving senior citizen tax relief on a semi-annual basis.**

Beginning the current fiscal year, OTR is verifying the income of households receiving Senior citizen Tax Relief. The verification should be done annually since OTR receives reports of income only annually.

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10.) Finalize the policy and procedures manual to document in process that the HSU should follow.

Response:

ASD management is actively working on updating the Homestead and Senior Credit Policies and Procedures Manual (P&P Manual). A finalized P&P Manual is expected to be available by September 1, 2013.

11.) Require managers regularly review notes entered by HSU staff to ensure compliance with the documentation standards.

Response:

OTR will require that managers regularly review notes entered by HSU staff to ensure compliance with the documented standards. These procedures will be in place by September 30, 2013.

If you have any further questions, please feel free to contact Vladimir Jadrijevic, Chief, Assessment Services Division, Real Property Tax Administration at (202) 442-6682.

cc: Robert Farr
Vladimir Jadrijevic