

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

**AUDIT OF THE OFFICE OF TAX AND REVENUE
TRANSFER OF DEDICATED TAX REVENUES**

OFFICE OF INTEGRITY AND OVERSIGHT




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



Office of Integrity and Oversight

TO: Glen Groff, Interim Deputy Chief Financial Officer
Office of Tax and Revenue

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

DATE: November 10, 2016

SUBJECT: Audit of the Office of Tax and Revenue Transfer of Dedicated Tax Revenues
(OIO No. 15-01-19b OTR)

This final report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of the Office of Tax and Revenue Transfer of Dedicated Tax Revenues.

The objectives of the audit were to determine if transfers were: (1) proper, accurate and timely; and (2) made in accordance with District of Columbia regulations. Our audit identified that, overall, the controls over the Office of Tax and Revenue (OTR) transfers of dedicated taxes were functioning properly and transfers were materially accurate and properly supported. However, we noted certain internal control deficiencies within the dedicated tax transfer processes that need strengthening.

OIO provided two recommendations to correct the described deficiencies. OTR concurred with the recommendations and agreed to implement the necessary corrective actions. The planned 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 this audit. Should you have any questions, please contact me at (202) 442-6433 or Tisha Edwards, Director, Internal Audit, at (202) 442-6446.

cc: Jeffrey 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
Baraka Ondiek, Chief Improvement Officer, OCFO
Paul Lundquist, Executive Director, OMA

**AUDIT OF THE OFFICE OF TAX AND REVENUE
TRANSFER OF DEDICATED TAX REVENUES**

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**AUDIT OF THE OFFICE OF TAX AND REVENUE
TRANSFER OF DEDICATED TAX REVENUES**

ACRONYMS

D.C.	District of Columbia
DCFO	Deputy Chief Financial Officer
EDF	Economic Development Finance
FY	Fiscal Year
HTF	Highway Trust Fund
ITS	Integrated Tax System
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OFOS	Office of Financial Operations and Systems
OFT	Office of Finance and Treasury
OIG	Office of Inspector General
OIO	Office of Integrity and Oversight
OMA	Office of Management and Administration
ORA	Office of Revenue Analysis
OTR	Office of Tax and Revenue
PILOT	Payment-in-Lieu of Taxes
RAA	Revenue Accounting Administration
SOAR	System of Accounting and Reporting
TIF	Tax Increment Financing
TSG	Tax Systems Group
WCSA	Washington Convention and Sports Authority

EXECUTIVE SUMMARY

OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) conducted an audit of the transfer of dedicated taxes by the Office of Tax and Revenue (OTR). This audit was included in the OIO's Fiscal Year (FY) 2015 Audit and Integrity Plan. The objectives of our audit were to determine if transfers were: (1) proper, accurate and timely; and (2) made in accordance with District of Columbia regulations.

The OTR is responsible for 8 dedicated tax transfers; therefore, we conducted our audit in two phases. On April 5, 2016, OIO issued our report on Phase 1, Audit of the Transfer of Dedicated Tax Revenues (Audit No. 15-01-19a OTR), which focused on the Healthy Schools Fund, Housing Production Trust Fund, Alcoholic Beverage Regulation Administration Reimbursable Detail Subsidy, and the Washington Metropolitan Area Transit Authority Operating Subsidy dedicated tax categories.

This audit report focused on the following 3 dedicated tax categories: Ballpark Revenue Fund, Tax Increment Financing/Payment-in-Lieu of Taxes (TIF/PILOT) Transfers, and Washington Convention and Sports Authority (WCSA). We did not audit the Highway Trust Fund (HTF), Motor Fuel Tax transfer, as it is audited annually by the D.C. Office of Inspector General (OIG).

CONCLUSION

We concluded that overall, the controls over the WCSA and Ballpark Revenue Fund transfers were functioning properly and transfers were materially accurate and properly supported; however, we noted the following internal control deficiencies over the TIF/PILOT transfer process during the audit period:

- The TIF/PILOT trustee transfers were not always recorded timely and accurately in SOAR.
- The Office of Management and Administration (OMA) did not adhere to the Office of Financial Operations and Systems (OFOS) and OMA Policies and Procedures for timely recording of financial transactions; additionally, the OMA Policies and Procedures were not fully developed and lacked an effective date of implementation.
- The TIF/PILOT trustee transfers for FY13 and FY14 disclosed multiple adjustments and corrections to the journal entries during and after the transfer process.
- Supervisory review and approval for the FY13 trustee transfers was not present.

EXECUTIVE SUMMARY

SUMMARY OF RECOMMENDATIONS

We provided two recommendations to the Deputy Chief Financial Officer, OTR, and the Executive Director, OMA, to improve the TIF/PILOT dedicated tax transfer process. The recommendations focused on:

- Meeting to discuss the feasibility of streamlining the TIF/PILOT recordation process to provide more efficient management of the program. Based on the determination, document the process, update policies and procedures, and address the consistency, accuracy, and maintenance of journal entry supporting documentation.
- Developing comprehensive reporting to capture TIF/PILOT activity from the receipt of the revenue in the pledge account to the transfer in the trustee account to provide an audit trail of the revenues.

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response to the draft report from OTR on November 7, 2016. OTR management concurred with the two recommendations and plans to take the necessary corrective actions to address the audit finding. The planned corrective actions are 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 District of Columbia (the District) levies and collects taxes from various sources to fund the programs and services of the District. While the majority of the taxes collected are deposited in the District's general fund, there may be a particular purpose or program that requires special funding. These special programs and purposes are funded through a specific tax source referred to as a dedicated tax. Dedicated taxes are established by legislation and are funded from real property tax, general sales tax, cigarette taxes, gross receipts, parking and storage taxes, motor fuel tax, and deed recordation and transfer taxes. A dedicated tax is no longer available for general budgeting unless redirected by the Mayor and the Council.

According to the District of Columbia Dedicated Taxes Report produced by the Office of Revenue Analysis (ORA) issued August 2013, there were 15 dedicated tax categories in the District. Of the 15 dedicated tax categories, the Office of the Chief Financial Officer (OCFO) is responsible for 8 dedicated tax transfers. During FYs 2013 and 2014, the Office of Tax and Revenue (OTR), Revenue Accounting Administration (RAA), was responsible for the following dedicated tax transfers:

Table 1:
Dedicated Taxes transferred by the RAA
Summary of Dedicated Taxes for FYs 2013 and 2014

Dedicated Tax	Source of Revenue	Authority to Dedicate	FY 2013 Amount	FY 2014 Amount
ABRA Reimbursable Detail Subsidy Program	General Sales Tax	§47-2002	\$ 460,000	\$1,170,000
Ballpark Revenue Fund	Gross Receipts Tax, Sales Tax on Tickets and Goods Sold at Stadium, Public Utility Tax	§10-1601.02 and §47-2762	\$55,528,678	\$61,227,683
Healthy Schools Fund	General Sales Tax	§38-821.02	\$4,266,000	\$4,266,000
Highway Trust Fund	Motor Fuel Tax	§9-111.01 and §9-111.01a	\$22,388,618	\$22,805,147
Housing Production Trust Fund	Deed Recordation and Deed Transfer Taxes	§42-2802-2804	\$53,218,890	\$54,009,011
Tax Increment Financing/PILOT program	Real Property Tax and General Sales Tax	§2-1217.05	\$65,512,411	\$64,040,825
Washington Convention Center Fund	Sales Tax on Hotel Rooms, Restaurant Meals, Alcohol, Rental Cars and Prepaid Phone Cards	§47-2002.03	\$104,041,241	\$105,450,873
WMATA Operating Subsidy	Sales Tax on Parking or Storing of Motor Vehicles	§47-2002.07	\$62,268,415	\$65,349,671
Total Dedicated Taxes Transferred			\$367,684,253	\$378,319,210

Source: District of Columbia Dedicated Taxes Report and Revenue Accounting Administration

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The RAA is responsible for ensuring that the transfers of tax revenues are performed in a timely manner, transferred to the appropriate agency, and are transferred in accordance with the law and internal policies and procedures. As part of this responsibility, RAA obtains reporting information from the various accounting systems to calculate the amount that is due and transfers the amount to the program on a monthly, quarterly, or annual basis.

This audit focused specifically on the following three dedicated taxes and funds:

Ballpark Revenue Fund

The purpose of this fund is to finance the construction of a publicly-owned baseball stadium for the Washington Nationals baseball team in Southeast D.C. The 41,546-seat Nationals Park opened in March 2008. The revenue for the fund is received from the following sources: 1) a ballpark fee based on the gross receipts of \$5 million or more of certain persons or organizations doing business within the District of Columbia, 2) a 10 percent tax on the sale of tickets to the stadium and the sale of merchandise and other goods inside the stadium, 3) parking taxes collected from people attending baseball games, 4) a 1 percent public utility tax on non-residential properties, and 5) a 1 percent toll telecommunications tax on non-residential properties.

Tax Increment Financing/Payment-in-Lieu of Taxes (TIF/PILOT) Program

The purpose of this program is to set aside the tax increment revenue that is needed to pay the debt service on TIF bonds, establish and maintain TIF reserves, and defray development costs. A TIF can be a combination of sales and use and real property or either tax type singularly, depending on what was decided in the TIF agreement with the Office of Economic Development Finance (EDF) at inception. A PILOT varies slightly in that this type of financing does not apply to sales and use tax. Except in rare occasions, PILOTs are typically based on real property assessments and are dedicated 100% to the bond repayment, without a carve-out for the General Obligation Bond.

The recordation of the TIF/PILOT dedicated tax transfers are processed within OTR and the Office of Management and Administration (OMA). OTR is responsible for monitoring and recording revenues in the pledge accounts. The transfer of revenues from the TIF/PILOT pledge account to the trustee account is performed electronically through the bank. OMA is responsible for the recordation of the account activity in the trustee accounts. In addition, OTR is responsible for preparing the Dedicated Tax Lead Sheets for the District's annual Comprehensive Annual Financial Report (CAFR). The Lead Sheets are cumulative spreadsheets with ending balance totals of all the dedicated tax categories for the entire fiscal year along with

INTRODUCTION

all prior-year adjustments. The TIF/PILOT portion of the Lead Sheets represents the trustee transfer activities recorded by OMA.

Washington Convention and Sports Authority (WCSA)

The purpose of the WCSA, formerly known as the Washington Convention Center Authority, is to fund the costs of operating the Walter E. Washington Convention Center, which opened in 2003. The allowable costs include expenses necessary for debt service, reserve funds, repair, maintenance, marketing service contracts, and all other expenses of operating the Washington Convention and Sports Authority, which manages the convention center. The fund receives a portion of the sales and use and hotel taxes collected on gross receipts for transient lodging or accommodations, food and drink for immediate consumption, spirits sold for consumption on premises, rental vehicles, and prepaid telephone cards.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to determine if transfers were: (1) proper, accurate, and timely; and (2) made in accordance with District of Columbia regulations.

In order to achieve these objectives, we conducted walkthroughs of the transfer processes; interviewed responsible personnel; reviewed the RAA Policies and Procedures, and applicable District laws and regulations. Additionally, we recalculated transfer amounts, verified transfers in the District's financial accounting system, and confirmed wire transfers with the Office of Finance and Treasury (OFT), where applicable. Our audit covered Fiscal Years 2013 and 2014. This report focused solely on three dedicated transfers: Ballpark Revenue Fund, Tax Increment Financing/Payment-in-Lieu of Taxes (TIF/PILOT) program, and the Washington Convention and Sports Authority Fund.

We relied on computer-processed data from the System of Accounting and Reporting (SOAR) and the Integrated Tax System (ITS). We did not perform a formal reliability assessment of the computer-processed data since independent auditors conducted a review of SOAR and ITS in the District's Comprehensive Annual Financial Report Audit for FY 2014.

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.

FINDING AND RECOMMENDATIONS

<p>FINDING 1: INTERNAL CONTROLS OVER THE TIF/PILOT RECORDATION PROCESS</p>

SYNOPSIS:

The internal controls over the TIF/PILOT trustee recordation process in the System of Accounting and Reporting (SOAR) need strengthening. Specifically, we noted delays in recording of transactions, multiple adjustments and corrections made to the TIF/PILOT trustee transfer journal entries, and inconsistent supervisory review of journal entries. These deficiencies were due in part to non-compliance with internal policies and procedures for timeliness, errors in recording bank statement activity, and inadequate recordkeeping. Timely, accessible, and accurate documentation is a necessary part of an effective internal control system.

DISCUSSION:

We selected four of the largest TIFs totaling 40% of the FY13 transfers and 43% of the FY14 transfers for review to determine if transfers were proper, accurate and timely. We traced the transactions posted in SOAR to the bank statements to determine the timeliness and accuracy of the amounts reported in SOAR.

We found that SOAR transactions during FY13 and FY14 for the TIF/PILOT trustee accounts were not always recorded timely. The OMA Policies and Procedures Section 90102004.30 Policies, refers to the Office of Financial Operations and Systems (OFOS) Policies and Procedures Manual as it relates to the recordation of transactions. The OFOS Policies and Procedures Manual (effective October 1, 2009), Volume V, Section 25306003.40 Responsibility states, "Agency personnel (including managers) is responsible recording (posting) all financial business event transactions in the financial system within 48 hours of occurrence; having a good understanding of the District's accounting related policies, procedures, and closing instructions; consulting with OFOS for assistance if they encounter any issues, concerns or problems with the recordation of financial transactions or the generation of financial information for reporting purposes; attending the accounting training sessions to become informed of the current policies, procedures and practices; and performing the closing tasks in a timely manner."

In analyzing the difference between the month the transaction occurred and the date entered in SOAR, we noted significant delays in the posting of transactions as follows:

FINDING AND RECOMMENDATIONS

**TABLE 2:
Delays in TIF/PILOT Recordation
FY 2013-FY 2014**

FY13	Entries Reviewed	Delayed recordings			Percentage of Entries that were Delayed
		>30 days	>60 days	>90+ days	
Real Property (8100)	43	4	4	14	51%
Sales and Use (8400)	145	17	11	22	34%
Totals for FY13	188	21	15	36	38%
FY14					
Real Property (8100)	45	1	3	11	33%
Sales and Use (8400)	140	15	8	20	31%
Totals for FY14	185	16	11	31	31%

Source: OIO

We also identified multiple adjustments and error corrections made to the FY13 and FY14 TIF/PILOT journal entries recorded in SOAR during and after the closing of the transfer process. These multiple adjustments and corrections were attributed to transposition errors in comparing the journal entries to the bank statements; recordation of transactions in the incorrect fiscal year; reversals of transactions due to the incorrect internal naming conventions; and recordation of journal entries that were not attributed to any specific TIF/PILOT.

In reviewing the journal entries we also noted that there was no indication of a supervisory review of the FY13 trustee transfers. In FY14, supervisory review and approval was present; however, adequate checks and balances were not evident to ensure accuracy of the data in the journal entries.

The current structure of the TIF/PILOT Program requires recording of financial transactions by two agencies which leads to an increased risk of errors. In our communication with OTR staff, they were aware of the multiple adjustments and routinely requested information from OMA to document the reasons for the adjustments for reporting requirements; however, OTR and OMA did not always effectively communicate as to the details of the adjustments.

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), both information and communication are vital to execution at all levels of an organization to identify, assess and respond to risk on an ongoing basis and ensure the achievement of objectives.

FINDING AND RECOMMENDATIONS

Transactions should be recorded timely and accurately so that financial systems reliably capture the financial position and properly reflect the status of the TIF/PILOT Program for the District's taxpayers and stakeholders.

RECOMMENDATIONS:

We recommend the Deputy Chief Financial Officer (DCFO), OTR, and the Executive Director, OMA:

1. Meet to discuss the feasibility of streamlining the TIF/PILOT recordation process to provide more efficient management of the program. Based on the determination, document the process, update policies and procedures, and address the consistency, accuracy, and maintenance of journal entry supporting documentation.

Management Response (Recommendation 1):

OTR management concurred with the recommendation and met with the Office of Management and Administration and will meet again to agree on the distribution of the responsibilities between the two work streams.

OIO Comment:

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

2. Develop comprehensive reporting to capture TIF/PILOT activity from the receipt of the revenue in the pledge account to the transfer to the trustee account to provide an audit trail of the revenues.

Management Response (Recommendation 2):

OTR management concurred with the recommendation to develop a comprehensive reporting process to capture TIF/PILOT activity from the receipt of revenues in the pledge account to the transfer to the trustee account and will also strengthen the audit trail by standardizing documentation and consistency between the two business units.

OIO Comment:

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

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

No.	Recommendation	Type of Benefit	Agency Reported Completion Date	Status ¹
1	Meet to discuss the feasibility of streamlining the TIF/PILOT recordation process to provide more efficient management of the program. Based on the determination, document the process, update policies and procedures, and address the consistency, accuracy, and maintenance of journal entry supporting documentation.	Internal Control	November 30, 2016	Open
2	Develop comprehensive reporting to capture the activity from the receipt of the revenue in the pledge account to transfer to the trustee account for each TIF/PILOT to provide an audit trail of the revenues.	Internal Control	November 30, 2016	Open

¹ 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 address the condition.

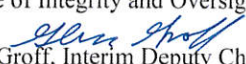
APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer
Office of Tax and Revenue



MEMORANDUM

TO: Timothy Barry, Executive Director
Office of Integrity and Oversight (OIO)

FROM: 
Glen Groff, Interim Deputy Chief Financial Officer
Office of Tax and Revenue

THRU: Bert Molina, Director
Revenue Accounting Administration

DATE: November 7, 2016

SUBJECT: Response to OIO's Findings and Recommendation on the Audit of OTR's Transfer of Dedicated Tax Revenues (Part 2)

Finding 1: Internal Controls over the TIF/PILOT Recordation Process

OIO Recommendations #1 and 2:

- 1) Meet to discuss the feasibility of streamlining the TIF/PILOT recordation process to provide more efficient management of the program. Based on the determination, document the process, update policies and procedures, and address the consistency, accuracy, and maintenance of journal entry supporting documentation.

OTR Response:

OTR concurs with the auditor's comments and recommendations. The Revenue Accounting Administration (RAA) and the Office of Management and Administration (OMA) have met and will meet again to agree on the distribution of the responsibilities between the two work streams. To date, RAA has provided a journal voucher template to OMA to ensure that there is consistency in the work paper standards across organizations, along with a sample transfer package that will serve to demonstrate adequate documentation and supervisory oversight as part of the overall internal control structure.

Furthermore, RAA has conveyed the importance of ensuring that policies and procedures provide an accurate account of the current process and the need to make timely revisions in response to any subsequent changes. As such, the work papers will continue to be compiled in that manner and

APPENDIX: OFFICE OF TAX AND REVENUE RESPONSE

Response to OIO's Findings and Recommendations
Audit of OTR's Transfer of Dedicated Tax Revenues (Part 2)
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timeframe set forth in the procedures. The goal is to ensure that the work papers and subsequent documentation can withstand the scrutiny of any independent review.

During preliminary discussions, OTR proposed that the carve out and dedication of the TIF/PILOT revenues will be processed by RAA, and OMA will process and record the Transfers of TIF/PILOT funds from custodial to the Trustee account.

Completion Date: November 30, 2016

Responsible Party: Vanessa Faulkner, Senior Advisor for Accounting Operations

- 2) Develop comprehensive reporting to capture TIF/PILOT activity from the receipt of the revenue in the pledge account to the transfer to trustee account to provide an audit trail of the revenues.

OTR Response:

OTR concurs with the auditor's recommendation to develop a comprehensive reporting process to capture TIF/PILOT activity from the receipt of revenues in the pledge account to the transfer to the trustee account. RAA will also strengthen the audit trail by standardizing documentation and consistency between the two business units.

Completion Date: November 30, 2016

Responsible party: Vanessa, Faulkner, Senior Advisor for Accounting Operations

If you require additional information, please contact Bert Molina, Director, Revenue Accounting Administration, at (202) 442-6448 or by e-mail at bert.molina@dc.gov.