



Office of Integrity & Oversight

**Government of the District  
of Columbia, Office of the  
Chief Financial Officer**

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March 23, 2017

**AUDIT OF INTERNAL  
CONTROLS OVER THE  
OFFICE OF TAX AND  
REVENUE CITY  
CLEAN HANDS TAX  
CERTIFICATION  
PROCESS**

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



**Office of Integrity and Oversight**

**TO:** Keith Richardson, Deputy Chief Financial Officer  
Office of Tax and Revenue

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

**DATE:** March 23, 2017

**SUBJECT:** Audit of Internal Controls over the Office of Tax and Revenue City Clean Hands Tax Certification Process (16-01-18 OTR)

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The attached report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over the Office of Tax and Revenue (OTR) City Clean Hands Tax Certification Process. The objectives of the audit were to determine whether (1) the internal controls over the certification process are adequate and effective; and (2) the certifications are granted in accordance with applicable laws and regulations.

OIO provided six recommendations to the Deputy Chief Financial Officer, OTR, for necessary action to correct the described deficiencies. OTR provided a written response to the draft report on March 16, 2017 concurring with all six recommendations. OTR also stated that they plan to take corrective actions to address the audit findings. The planned corrective actions are responsive and meet the intent of the recommendations. A copy of OTR's response, in its entirety, is included as an Appendix to this report.

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.

Attachment

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, Continuous Improvement Officer, OCFO  
Ranabir Dey, Chief Information Officer, OCFO  
Glen Groff, Director of Operations, OTR, OCFO



## Highlights

Highlights of Report 16-01-18 OTR, a report to the OTR Deputy Chief Financial Officer

### Why OIO Did This Audit

The Office of Integrity and Oversight performed this audit of the Office of Tax and Revenue (OTR) City Clean Hands (CCH) Tax Certification process to ensure that controls were adequate in the approval or denial of clean hands certificates. This audit was included in the OIO FY 2016 Audit Plan.

### What OIO Recommends

We provided the Deputy Chief Financial Officer, OTR, with recommendations that centered on strengthening internal controls and reporting. Recommendations included:

- Upgrading the software to provide for improved tracking of CCH applications in the web portal and include additional reporting capabilities.
- Reducing the number of employees with override authority and only grant access to authorized employees and managers.
- Requiring that the OTR's Collection Division document in ITS or MITS the reasons for issuing CCH Certificates to applicants with delinquent accounts.
- Consulting with legal counsel to determine whether the legislation needs to be revised as it relates to non-filers.

March 23, 2017

# AUDIT OF INTERNAL CONTROLS OVER THE OTR CITY CLEAN HANDS CERTIFICATION PROCESS

### What Did OIO Find

We met with and interviewed responsible personnel at OTR's Collections Division and the Office of the Chief Information Officer (OCIO) and reviewed a random sample of 60 approved applications processed through the CCH System web portal to determine compliance with the legislation. We identified the following issues:

#### **Internal control improvements are needed in the CCH Certification process.**

We found 2 applicants were approved for a CCH certificate while owing more than \$100; inconsistencies with the override authority granted to CCH system users; and limited capabilities within the CCH system to track applications.

#### **Non-Compliance with the CCH Legislation.**

We found that although the CCH web application was launched by the OCFO in October 2015, which required District agencies to provide debt information to be incorporated in the web portal, only two agencies have complied. We also noted that OTR did not have a process to track non-filers who are non-compliant with District tax laws.

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## Abbreviations and Acronyms

<b>CCH</b>	City Clean Hands
<b>DC</b>	District of Columbia
<b>DCFO</b>	Deputy Chief Financial Officer
<b>FY</b>	Fiscal Year
<b>ITS</b>	Integrated Tax System
<b>MIT</b>	Modernized Integrated Tax System
<b>OCFO</b>	Office of the Chief Financial Officer
<b>OCIO</b>	Office of the Chief Information Officer
<b>OTR</b>	Office of Tax and Revenue
<b>OIO</b>	Office of Integrity and Oversight

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## Background

The City Clean Hands (CCH) Certification Mandate, DC Code § 47-2862, prohibits the issuance or reissue of licenses or permits to applicants who owe the District more than \$100 in outstanding fines, penalties, or interest. In addition to this mandate, D.C. Code §47-2866 required that the Office of the Chief Financial Officer (OCFO) implement an inter-agency computer system to provide data on delinquent debts owed to District agencies issuing licenses or permits.

An online portal, which is managed by the Office of the Chief Information Officer (OCIO), was launched in October 2015. The portal can be accessed by the public. It can be also accessed by all District agencies that may need to ascertain that an individual applicant does not owe more than \$100 to the District before the agencies provide the applicant with licenses, permits, contract approvals, and any other services from the District of Columbia Government.

In order to apply for a CCH certificate online, the public can go to the online web portal and complete an application. OTR also accepts email application requests and applications at the walk-in booth located at OTR's Customer Service Center. The web portal is updated daily to ensure that debt information received from agencies is current. The data received from agencies includes the name of the individual or entity owing the debt, the amount owed and the agency owed the debt.

Applicants who apply for a CCH certificate online and do not owe debt over \$100 are approved and issued a CCH certificate which can be printed immediately. If the application is denied, the applicant is referred to the agency to which the liability is due for further assistance.

When an email request is received by OTR's Collection Division, the applicant's information is entered into the CCH system by an OTR employee. The staff verifies the information is correct and conducts a search in the Integrated Tax System (ITS) or the Modernized Integrated Tax System (MITS) to determine compliance. If the applicant does not owe more than \$100 in debt to the District (Compliant), a certificate is printed out and mailed to the applicant. On the other hand, if the applicant owes more than \$100 in debt (Non-Compliant), OTR provides them with information about the debt owed and refers

them to the appropriate agency if the debt is not an OTR debt. If the debt is owed to OTR, the applicant is asked to make arrangements to pay the debt before a certificate can be issued. The Collections Division is also authorized to override an application denial if the applicant agrees to a payment plan or makes an immediate payment of the OTR-related debt. For all other debt, the applicant is directed to the appropriate agency to resolve the debt.

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## **Objectives, Scope, and Methodology**

The objectives of the audit were to determine whether (1) the internal controls over the certification process are adequate and effective; and (2) the certifications are granted in accordance with applicable laws and regulations. The audit covered the period September 1, 2015 to September 30, 2016 and specifically verified the OTR related debt.

In order to achieve our objectives, we met with and interviewed responsible personnel from the Office of Tax and Revenue (OTR) and the OCIO. We selected a random sample of 60 approved applications, out of a total of 2,470 transactions, to review for compliance with the D.C. Code § 47-2862. We checked in ITS and MITS to verify that the applicants did not owe any taxes during the period when they were issued a CCH certificate. We also reviewed pertinent documentation that included laws, policies and procedures and training material.

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.





### **Override Authority**

We were informed by the OCIO officials that authorized OTR system users can override a CCH system denial. OTR officials informed us that if the applicant makes an acceptable arrangement to pay the amount owed they had the authority to override the system denial. Although we were provided with a list of users with override ability, we were informed that a system override is not retained by the system. Therefore, we were not provided with a list of overrides to review and determine when and how this authority is used.

During our review of the list of CCH system users with override authority, we noted that override authority was granted to employees that are not part of the Collections Division and included employees that are no longer working for the District. OIO reviewed the Clean Hands Policies and Procedures and noted that the document is silent as to override policy and the process. Best practices require that access should be granted to users based on their assigned job duties and to accomplish their business functions. Additionally, the override authority list should be monitored to ensure that the list is updated as required. Granting unrestricted override authority could lead to CCH certificates being issued to applicants with deficient accounts.

### **Non-filers issued Clean Hands Certification**

The City Clean Hands legislation, D.C. Code §47-2862 (a) (8), states the failure to file required District tax returns is one of the conditions for denial of a CCH certification. During our audit, we noted that the online web portal is not provided with data for businesses that do not file taxes. It is therefore unclear whether non-filers of business taxes may have been issued CCH certificates while delinquent.

The identification of businesses that do not file District taxes was also raised by the Office of Inspector General (OIG) in a Management Implication Report (MIR) dated September 18, 2015, in which the OIG cited the D.C. Office of Contracting and Procurement (OCP) for issuing contracts to contractors who had not paid District franchise taxes. We were informed by OTR that it is difficult to determine whether a business has a filing requirement unless they file a tax return. In some cases, the entity may not owe any taxes for a particular year due to the business activities for that year. The legislation does not provide further clarification on how to handle taxpayers that are non-filers. As a result, businesses that are non-filers and non-compliant with District tax laws, may receive clean hands to do business with the District.

### **Debt Reporting by District Agencies**

The Clean Hands legislation D.C. Code §47-2866 required that the OCFO implement an inter-agency computer system to be used by all District agencies issuing licenses or permits. The agencies were also required to provide the OCFO with data on delinquent debts. Although the City Cleans Hands web application was launched by the OCFO in October 2015, the only agencies that provide delinquent debt data are OTR and the Department of Employment Services (DOES). The Clean Hands legislation §47-2862 (a) (1) speaks to the agencies and specific fines

that should provide data on debt. Agencies include but are not limited to: the Department of Consumer and Regulatory Affairs, Traffic Adjudication, Department of Motor Vehicles, and the DC Water and Sewer Authority.

The D.C. Code §47-2866(d) also gives the CFO the authority to promulgate rules as may be necessary and appropriate to carry out provisions of the law. We did not see evidence of attempts by OTR to compel the agencies to comply. The lack of debt data means that the CCH system is not functioning at full capacity.

Overall, non-compliance with the CCH legislation can result in the loss of revenue that maybe owed to the District. Although OTR is aware of the issues we cited above, action should be taken to remedy these deficiencies and improve internal controls to ensure that only compliant applicants are issued a CCH certification.

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## Recommendations

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

1. Upgrade the software to provide for improved tracking of CCH applications in the web portal and include additional reporting capabilities.
2. Reduce the number of employees with override authority and only grant access to authorized employees and managers.
3. Update the policies and procedures to provide guidance on override authority.
4. Require that the OTR's Collection Division document in ITS or MITS the reasons for issuing CCH Certificates to applicants with delinquent accounts.
5. Consult with legal counsel to determine whether the legislation needs to be revised as it relates to identifying non-filers.
6. Contact the District agencies that are not complying with the legislation to obtain the debt data as required by the law.

## Management Responses and OIO Comments

### Management Response (Recommendation 1):

OTR stated that they agreed with the finding and will meet with the OCIO to discuss the supplemental reporting requirements no later than April 30, 2017. A final determination will be made no later than May 31, 2017.

**OIO Comment:**

The planned corrective actions are responsive and meet the intent of the recommendation.

**Management Response (Recommendations 2 and 3):**

OTR agreed with the finding and stated that controls will be implemented to ensure that override authority should be limited and only authorized employees should have access to the application. Updated policies and procedures will be communicated in writing by April 30, 2017 and the final override access review will be completed by May 31, 2017.

**OIO Comment:**

The planned corrective actions are responsive and meet the intent of the recommendations.

**Management Response (Recommendation 4):**

OTR stated that the OTR's Collections Division will update the existing CCH policies and procedures to define how personnel should document notes in ITS and MITS with respect to delinquent accounts by April 30, 2017.

**OIO Comment:**

The planned corrective actions are responsive and meet the intent of the recommendation.

**Management Response (Recommendation 5):**

OTR stated that Collection Division Chief and/or his designee will meet with Legal Counsel by March 30, 2017 to discuss whether the legislation requires revision. Outcomes will be communicated to stakeholders no later than April 15, 2017.

**OIO Comment:**

The planned corrective actions are responsive and meet the intent of the recommendation.

**Management Response (Recommendation 6):**

OTR stated that beginning in 2017 the OCIO initiated several projects to work with agencies to obtain the files required by law. The project began with DOH in February 2017, DOES in December 2016, DCRA in February 2017 and ABRA in February 2017. The DCFO and/or his designee will work with the Department of Motor Vehicle (DMV) to obtain the required file no later than April 30, 2017.

**OIO Comment:**

The planned corrective actions are responsive and meet the intent of the recommendation.

**Exhibit A: Summary of Recommendations and Benefits**

No.	Recommendation	Type of Benefit	Agency Reported Estimated Completion Date	Status <sup>3</sup>
1	Upgrade the software to provide for improved tracking of CCH applications in the web portal and include additional reporting capabilities.	Internal Control	May 31, 2017	Open
2	Reduce the number of employees with override authority and only grant access to authorized employees and managers.	Internal Control	May 31, 2017	Open
3	Update the policies and procedures to provide guidance on override authority.	Internal Control	April 30, 2017	Open
4	Require that the OTR's Collection Division document in ITS or MITS the reasons for issuing CCH Certificates to applicants with delinquent accounts.	Internal Control	April 30, 2017	Open
5	Consult with legal counsel to determine whether the legislation needs to be revised as it relates to identifying non-filers.	Internal Control	April 15, 2017	Open
6	Contact the District agencies that are not complying with the legislation to obtain the debt data as required by the law.	Internal Control	April 30, 2017	Open

<sup>3</sup> This column provides the status of the 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 the action is not complete. "Closed" means that management advised that the action taken needed to correct the condition 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 take the recommended action nor proposed satisfactory alternative actions to correct the condition.

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**APPENDIX: Office of Tax and Revenue Management Response**

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



Keith J. Richardson  
Deputy Chief Financial Officer

**MEMORANDUM**

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

**FROM:** Keith J. Richardson   
Deputy Chief Financial Officer

**DATE:** March 16, 2017

**SUBJECT:** Draft Report: Audit of Internal Controls over the Office of Tax and Revenue City Clean Hands Tax Certification Process (**Report Number: 16-01-18 OTR**)

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This memorandum is in response to the above-named audit report, addressed to the Office of Tax and Revenue for response. We are providing the following responses to the report based on the recommendations associated with this particular finding.

**Recommendation #1: Upgrade the software to provide for improved tracking of CCH applications in the web portal and include additional reporting capabilities.**

The Office of the Chief Information Officer (OCIO) provided the Office of Integrity and Oversight (OIO) with a report of all approved applications processed through the Citywide Clean Hands (CCH) web portal from September 1, 2015 to September 30, 2016. During your review of the report, you noted that each application is assigned a unique service ID, and that some entities had different service IDs associated with their applications on the same day. As a result, you could not determine the exact number of approved applications. The OCIO informed OIO that they were aware of this issue and that a software upgrade would be required to correct it. However, after a more thorough review, it was determined that what was initially identified as a software issue is, in fact, a required business rule that allows the identification and tracking of each transaction, regardless of whether it relates to a new or existing application. There are no limits to the number of times an individual can access the CCH portal to update an application; thus, there is a need to identify those accesses individually.

With regard to reporting, there is a CCH Web Transaction Report, generated and distributed weekly that lists the number of approved applications. While this report is helpful, OTR believes that improved reporting capabilities and application tracking would be beneficial for review/internal control purposes, and thus agrees with this finding. The Collection Division Chief will meet with the OCIO to determine (1) if “applications” can be identified separately from “transactions” for more efficient tracking, and (2) if additional reporting with varying delivery frequencies can be developed that will provide the number of transactions per application, as well as the

## Audit of Internal Controls over the OTR City Clean Hands Tax Certification Process

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number of applications submitted, approved, denied, etc. Once the CCH application reporting capabilities are determined, the Collection Division will determine supplemental reporting requirements. A meeting with the OCIO will occur no later than April 30, 2017. A final determination will be made no later than May 31, 2017. Full implementation dates will be determined based upon the outcome of the discussions.

**Recommendation #2: Reduce the number of employees with override authority and only grant access to authorized employees and managers.**

The OTR agrees that the number of employees with system override authority should be limited, and that controls will be implemented to ensure that only authorized employees have access to the application. On March 1, 2017, the OCIO revised the list of personnel with override authority to include only managers and/or their designees. The Collection Division Chief will update existing policies and procedures to define what personnel should have system override authority.

All Debt File providers, i.e., the Department of Employer Services (DOES), the Department of Health (DOH), the Regulatory Affairs Department of Consumer and Regulatory Affairs (DCRA), and the Alcohol Beverage Regulation Administration (ABRA), may submit requests to add users to the application to support their operations. To ensure that access is granted to authorize personnel only, the Collection Division Chief will meet with OCIO to discuss possible modifications to the CCH users table. Currently, they do not deactivate/delete accounts for separated employees, as it is a district-wide, intranet-based application. Ideally, the Management Analyst will request the list of users from OCIO on a monthly basis to ensure that only the appropriate personnel have override authority.

An update of the policies and procedures will be communicated in writing by April 30, 2017. A revised list of personnel, to include OTR, OCIO and any other Debt File provider's employees with override authority permission will be submitted to the OCIO by May 30, 2017. The discussion with the OCIO about the users table and possible modifications will take place no later than April 30, 2017. The first override access review will be completed by May 31, 2017. Those reviews will continue monthly thereafter.

**Recommendation #3: Update the policies and procedures to provide guidance on override authority.**

The Collection Division Chief will update existing CCH policies and procedures to define what personnel should have override authority and provide guidance for how and when override authority should be used. Clear policies and procedures for overriding system denials will include various examples, as well as the requirement that all OTR employees notate MITS and ITS with the rationale for issuing CCH certifications to taxpayers meeting these exceptions. Updated policies and procedures will be completed and communicated to stakeholders no later than April 30, 2017.

**Recommendation #4: Require that the OTR's Collection Division document in ITS or MITS the reasons for issuing CCH Certificates to applicants with delinquent accounts.**

As stated in Recommendation #3, the Collection Division Chief will update the existing CCH policies and procedures to define how personnel should document notes in ITS and MITS with respect to delinquent accounts.

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**Recommendation #5: Consult with legal counsel to determine whether the legislation needs to be revised as it relates to identifying non-filers.**

OTR understands the concern regarding the systemic limitations and the possibility of issuing CCH certifications to non-filers. The City Clean Hands legislation, D.C. Code §47-2862 (a) (8), lists the failure to file required District tax returns as one of the conditions for denial of CCH certification. As communicated during the audit, it is difficult to determine whether a business has a filing requirement unless they file a tax return. Since the existing legislation does not provide further clarification on how to handle taxpayers that are non-filers, the Collection Division Chief and/or his designee will meet with Legal Counsel, by March 30, 2017, to discuss whether the legislation requires revision. Outcomes and necessary action will be communicated to stakeholders no later than April 15, 2017.

**Recommendation #6: Contact the District agencies that are not complying with the legislation to obtain the debt data, as required by the law.**

Beginning in 2016, The OCIO initiated several projects to work with agencies to obtain the files required by law. These projects began with DOH in February 2017, DOES in December 2016, DCRA in February 2017, and ABRA in February 2017. The anticipated completion dates of these projects are April 2017 for DOES, and September 2017 for the other agencies.

The DCFO and/or his designee will work with the Department of Motor Vehicles (DMV) to obtain the required file. OTR will meet with DMV no later than April 30, 2017 to establish protocols for ongoing delivery of the information. Expected date of delivery will be determined after meeting with DMV.

Should you have any additional questions, please contact Bobby Tucker, Chief, Collections Division, at 442-6621.

cc: Ranabir Dey, Chief Information Officer, OCFO