

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 23, 2006

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Dear Dr. Gandhi and Ms. Hobbs Newman:

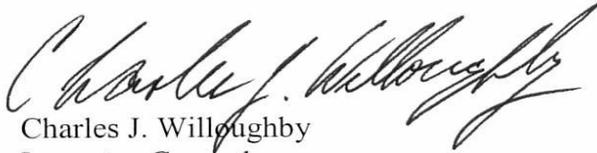
Enclosed is our final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Homestead Deduction and Senior Citizen Real Property Tax Relief Programs (OIG No. 04-1-27AT).

Our report contains nine recommendations for necessary action to correct the described deficiencies. We received a response to the draft report from the Office of the Chief Financial Officer (OCFO) on March 1, 2006. The OCFO's response fully addressed all but one of the recommendations, and we consider the actions taken and/or planned to be responsive to the remaining recommendations. We request that the OCFO reconsider its response to Recommendation 3. The full text of the OCFO's response is included at Exhibit D.

Dr. Gandhi and Ms. Hobbs Newman
Final Report - OIG No. 04-1-27AT
March 23, 2006
Page 2 of 4

We appreciate the cooperation extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

CJW/mg

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Dr. Gandhi and Ms. Hobbs Newman
Final Report - OIG No. 04-1-27AT
March 23, 2006
Page 4 of 4

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE HOMESTEAD
DEDUCTION AND SENIOR
CITIZEN REAL PROPERTY
TAX RELIEF PROGRAMS**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

**AUDIT OF THE HOMESTEAD DEDUCTION AND SENIOR
CITIZEN REAL PROPERTY TAX RELIEF PROGRAMS**

TABLE OF CONTENTS

EXECUTIVE DIGEST..... i

INTRODUCTION.....1

BACKGROUND1

OBJECTIVES, SCOPE, AND METHODOLOGY6

PRIOR AUDITS.....7

FINDINGS AND RECOMMENDATIONS8

FINDING 1. PROPERTY TAX CREDITS8

FINDING 2. POLICIES AND PROCEDURES.....15

FINDING 3. APPLICATIONS AND RECORDKEEPING.....19

FINDING 4. CONFIRMATION PROCESS23

EXHIBITS26

EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS26
 RESULTING FROM AUDIT

EXHIBIT B. FLOWCHART OF APPLICATION PROCESS28

EXHIBIT C. INELIGIBLE PROPERTY OWNERS.....31

EXHIBIT D. MANAGEMENT RESPONSE37

EXECUTIVE DIGEST

OVERVIEW

This report summarizes the results of the Office of the Inspector General's (OIG) Audit of the Homestead Deduction and Senior Citizen Real Property Tax Relief Programs (OIG No. 04-1-27AT). We included the audit in our *Fiscal Year 2006 Audit and Inspection Plan*.

The Office of Tax and Revenue (OTR), which is a part of the Office of the Chief Financial Officer (OCFO), is responsible for collecting taxes and accurately accounting for all revenues. Our audit objectives were to determine whether the OTR: (1) administered the homestead and senior citizen real property tax deduction programs in an effective, efficient, and economical manner; (2) complied with requirements of applicable laws, regulations, policies and procedures in administering the deductions; and (3) had internal controls in place to prevent or detect misuse or abuse of the deductions and to recover lost revenue.

CONCLUSIONS

This report contains four findings that detail the conditions found during the audit. The first finding disclosed that some property owners received the homestead deduction tax credit and/or senior citizen tax relief even though the owners did not qualify for these tax credits. This occurred when property owners received tax credits on multiple properties, and on leased properties. These conditions existed because OTR: (1) had inadequate internal controls over the application process; (2) did not coordinate with the Department of Consumer and Regulatory Affairs (DCRA) and the D.C. Housing Authority (DCHA) to identify rental properties; and (3) did not require property owners to submit sufficient documentation along with their homestead deduction and senior citizen tax relief applications. As a result, we projected OTR lost between \$1.1 million and \$3.4 million in revenue in fiscal year (FY) 2004.

In the second finding, we noted that OTR did not develop formal policies and procedures for managing and administering the homestead deduction and senior citizen tax relief programs. OTR had informal procedures which had not been reviewed and approved by appropriate officials. Further, OTR had not updated the informal procedures. The lack of formal policies and procedures increases the risk that operational practices will not be consistent with organizational objectives and that program results will not be effectively achieved.

Our third finding addressed OTR's inability to provide to us all completed homestead deduction and senior citizen tax relief applications for requested property owners in the homestead deduction and senior citizen tax relief programs. OTR's inability to provide the applications indicated the property owners possibly did not complete applications, and/or the owners received the tax credits because the prior owners received the tax credits. In addition, OTR had not recorded some current property owners in the tax system, evidencing that these owners likely did not complete the required applications. However, we did not include these

EXECUTIVE DIGEST

owners in our statistical results because the owners may have satisfied all other criteria to receive the tax credits.

In the last finding, we discussed OTR's need to improve the confirmation process for ensuring property owners remain eligible to participate in the homestead deduction and senior citizen tax relief programs. In FY 2004, OTR did not mail a sufficient number of confirmations to property owners in the programs. In addition, OTR did not develop a mechanism to ensure each property owner is periodically audited. Further, when OTR identified ineligible property owners during the confirmation process, OTR did not always require the owners to reimburse the District for the dollar value of the credits improperly applied. Without an effective confirmation process, OTR cannot be assured that ineligible property owners are quickly identified or that funds due to the District are collected.

SUMMARY OF RECOMMENDATIONS

We directed nine recommendations to the Chief Financial Officer, OCFO and Deputy Chief Financial Officer, OTR that we believe are necessary to correct the deficiencies noted in this report. The recommendations, in part, center on:

- Developing and implementing controls to prevent property owners from obtaining the homestead deduction and/or senior citizen tax relief on multiple properties.
- Coordinating, periodically, with DCRA and DCHA to detect property owners who simultaneously leased their properties, and received the homestead deduction and/or senior citizen tax relief.
- Requiring property owners who receive the homestead deduction and/or senior citizen tax relief to submit documentation (such as copies of utility bills, drivers licenses, etc.) along with their applications and confirmations.
- Recovering funds from residential property owners ineligible to receive tax credits, and assess interest and penalties when appropriate.
- Improving management oversight over the homestead deduction and senior citizen tax relief programs by establishing formal policies and procedures to manage and administer the programs.
- Identifying current property owners who did not complete applications to receive the homestead deduction and/or senior citizen tax relief, and requiring the owners to complete confirmations and determine if they are qualified to receive the tax credits.

EXECUTIVE DIGEST

- Developing internal controls (manual or automated) to timely record ownership changes to ensure future property owners do not receive the homestead deduction and senior citizen tax relief unless the owners complete an application.
- Ensuring a sufficient number of confirmations are mailed each year, and developing a mechanism to ensure each property owner is audited at least once every 3-5 years.
- Identifying “red flags” to detect ineligible property owners during the confirmation process, and recouping funds where credits were improperly applied.

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

CORRECTIVE ACTIONS

On March 1, 2006, OCFO provided a written response to our draft report. OCFO’s response fully addressed all but one of our recommendations, and we consider the actions taken and/or planned to be responsive to our recommendations. OCFO partially concurred with Recommendation 3, and we request that the OCFO reconsider its response and fully implement Recommendation 3. The full text of the OCFO’s response is included at Exhibit D.

INTRODUCTION

BACKGROUND

Establishment of Residential Tax Credits

D.C. Law 2-45, the Residential Property Relief Act of 1977, established the homestead tax deduction, and D.C. Law 6-153, the Real Property Tax Rates for Tax Year 1987 Act of 1986, established the senior citizen tax relief. The Council of the District of Columbia (Council) passed both of these laws to provide tax relief for Class 1 property owners. Class 1 property is defined by statute as: (1) improved residential real property, which is owner-occupied, contains no more than five dwelling units, and is used exclusively for nontransient residential dwelling purposes; and (2) improved residential real property, which is owned by a cooperative housing association, and whereby shareholders or members of the association occupy 50 percent of the dwelling. D.C. Code § 47-813(b)(1) (2001).

District of Columbia (District) Residential Property

The District has approximately 180,000 residential properties (e.g. houses, apartments, and condominiums). Of this total, 88,210 properties received the homestead deduction and/or senior citizen tax relief in FY 2004.

Granting Tax Credits

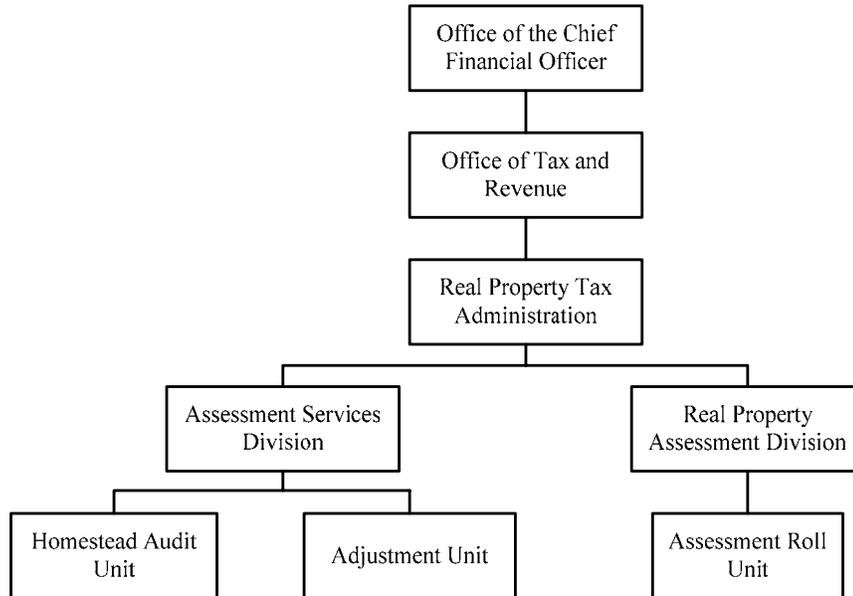
The OTR, which is a part of the OCFO, is responsible for collecting taxes and accurately accounting for all revenues. OTR is divided into several divisions, including the Real Property Tax Administration (RPTA). Responsible for administering the District's real property tax program, RPTA is divided into three divisions: the Recorder of Deeds, the Assessment Services Division (ASD), and the Real Property Assessment Division. The latter two divisions are involved in granting the homestead deduction and senior citizen tax relief.

The Homestead Audit Unit in the ASD is primarily responsible for the homestead deduction and senior citizen tax relief programs, but other units are also involved in the programs. Specifically, the Homestead Audit Unit and the Assessment Roll Unit in the Real Property Assessment Division review the homestead deduction and senior citizen tax relief applications and determine eligibility. When adjustments need to be made to real property tax bills, the Adjustment Unit in the ASD makes the adjustments. The following chart displays the organizational structure for the homestead deduction and the senior citizen tax

INTRODUCTION

relief programs.

Table 1. Organizational Structure



Homestead Deduction Tax Credit. To qualify for the homestead deduction, the following provisions must be satisfied: (1) the property owner must file a homestead deduction application; (2) the applicant must occupy the property; (3) the property must be the applicant's principal residence or domicile; and (4) the property must not contain more than five dwelling units (including the unit occupied by the applicant). There are other provisions for real property owned by cooperative housing associations, and property transferred to trusts. A property owner can only have one principal residence. Thus, the principal residence requirement means an owner cannot receive the deduction on more than one property.

Senior Citizen Tax Relief. To receive senior citizen tax relief, property owners must satisfy the provisions for the homestead deduction. In addition, the following provisions apply: (1) the applicant must be 65 years of age or older; (2) the applicant must own 50 percent or more of the property or cooperative unit; and (3) the total adjusted gross income of everyone living in the property or cooperative unit, excluding tenants, must be less than \$100,000 for the prior calendar year. Essentially, property owners receiving senior citizen tax relief receive both the homestead deduction and senior citizen tax relief.

Property owners who qualify for the homestead deduction and senior citizen tax relief may also qualify for the assessment cap credit. The assessment cap credit ensures a property owner's real property tax bill does not increase more than 12 percent above the prior year's

INTRODUCTION

tax bill. The assessment cap credit is granted if the following conditions have been met during the prior tax year: (1) the property had not been sold or transferred; (2) the owner used the property as his/her principal residence; (3) the owner did not request a change in zoning classification, which resulted in an increase in property value; (4) the previous assessment was not clearly erroneous; and (5) the property had no significant construction or rehabilitation which caused a 10 percent or more increase in the improvement value. According to OTR officials, the tax system will automatically grant the assessment cap credit to individuals receiving the homestead deduction and the senior citizen tax relief if the system detects the assessment cap credit criteria has been met. OTR officials also stated that property owners benefit more from the assessment cap credit itself than the homestead deduction.

Calculation of Tax Credits

As of April 22, 2004, if a property owner is approved to receive the homestead deduction, OTR reduces his/her property assessment value by \$38,000 prior to computing the annual tax liability. The senior citizen tax relief reduces a property owner's tax by 50 percent after applying the \$38,000 homestead credit. For tax years 2004 and 2005, the tax rate for Class 1 property was \$.96 per \$100. Thus, the tax rate for senior citizens would be \$.48 per \$100. The following table compares the tax liability for a property when the owner receives the homestead deduction, senior citizen tax relief, or receives no tax credit/deduction.

Table 2. Tax Liability Calculation for Class I Property (Tax Year 2004)*

	No Tax Credit	Homestead Deduction	Senior Citizen Relief
Property Assessment Value	\$200,000.00	\$200,000.00	\$200,000.00
Homestead Credit	- 0.00	- 38,000.00	- 38,000.00
Difference After Credit	200,000.00	162,000.00	162,000.00
Tax Rate	x .0096	x .0096	x .0048
Annual Tax Liability	\$ 1,920.00	\$ 1,555.20	\$ 777.60

* This calculation is based on the assumption that the property owner is eligible to receive the credit for the entire tax year. The tax year corresponds with the District's fiscal year.

Taxes are due in two equal installments. The first installment covers the period October 1 through March 31, and the second installment covers the period April 1 through September 30. When a property owner receives the homestead deduction for the entire tax year, the credit translates to \$364.80 in tax savings. As shown in Table 2, larger tax savings

INTRODUCTION

are realized if property owners receive the senior citizen tax relief. In addition, property owners also receiving the assessment cap credit realize even further savings.

Application Process

Completing the Application. Property owners either complete their homestead deduction and senior citizen tax relief application at settlement (or closing) when they purchase their properties, or complete the application at a later date. When property owners file their applications between October 1 and March 31, they are eligible to receive the homestead deduction and senior citizen tax relief for the entire tax year. D.C. Code §§ 47-850(c) and 47-863(d) (2001). If the applications are filed between April 1 and September 30, the property owners can only receive one-half of the tax credit for the second installment. *Id.* For example, if a qualified individual purchases property and completes an application on February 1, the individual can receive the tax credit for the entire tax year although the individual did not own the property from October 1 through January 31.

Property owners must answer several questions on the homestead deduction and senior citizen tax relief application, which are designed to disclose their eligibility. Specifically, property owners must state if they own and occupy the property, and if the property is their principal residence. In addition, property owners applying to receive senior citizen tax relief must provide their date of birth, and answer additional questions. Under D.C. Code § 47-850(b) (2001), the Mayor is granted the authority to require property owners to provide any information considered necessary to establish eligibility. However, OTR did not require property owners to submit any documentation along with their applications.

The homestead deduction and senior citizen tax relief applications clearly state that property owners cannot receive multiple tax credits (i.e., receive the homestead deduction on more than one property) or receive tax credits on leased properties. The application form states on page 1, “You may not get a Homestead deduction on more than one property,” and “To be eligible for the Homestead deduction you must: 1) own and reside in the property as your principal place of residence. . . .” On the application, property owners must certify, under penalty of perjury, the information provided on the form is true and correct to the best of their knowledge and belief. Individuals convicted of making false statements on the application form can be fined up to \$1,000 or imprisoned up to 180 days, or both under D.C. Code § 22-2405 (2001).

Reviewing the Application. The Assessment Roll Unit reviews the applications completed at settlement, and determines if the property owners are eligible to receive the homestead deduction or senior citizen tax relief. According to OTR officials, most property owners complete their applications at settlement. Property owners who do not complete their applications at settlement, mail their applications to the OTR or drop off their applications at the OTR Customer Service Administration. The Homestead Audit Unit reviews these applications and determines eligibility. In the Homestead Audit Unit, the Tax Examiner is

INTRODUCTION

primarily the only staff person reviewing the initial applications and determining eligibility. The entire application review process is shown in Exhibit B.

Continuing Eligibility. Property owners do not have to periodically reapply for the tax credits. D.C. Code § 47-850.02(a) (2001). Property owners continue to receive the homestead deduction and the senior citizen tax relief as long as there is no change in eligibility. To verify that property owners continue to meet eligibility requirements, OTR sends confirmation letters and forms to selected property owners. The confirmation process is considered an audit. OTR officials identified two methods for selecting property owners to audit. First, OTR sends confirmation letters to property owners reported by other individuals as being ineligible. Secondly, OTR coordinates with other District agencies to identify potential ineligible property owners. The property owners must complete and mail the forms to OTR. The Homestead Audit Unit determines if the property owners remain eligible to participate in the programs. OTR removes property owners from the programs if the forms are returned unopened, the property owners do not respond to the letters, or their responses show they are no longer eligible.

Canceling the Tax Credits. When a property no longer qualifies for the homestead deduction or senior citizen tax relief, the property owner is required to provide notification within 30 days after the change in eligibility. D.C. Code § 47-850.02(b)(1) (2001). For example, if a property owner receiving the homestead deduction moves out of a property and begins leasing it to another individual in September 2005, the property owner must notify OTR by October 2005. If the property owner fails to timely provide notification, the tax credits may be rescinded, and penalty and interest may accrue. *Id.* The cancellation provisions are included on the application.

Fines and Penalties for Ineligible Property Owners

Ineligible property owners are subject to fines and penalties. D.C. Code § 47-850.04 (2001) provides: “If an individual, shareholder or member claims more than one homestead in the same tax year, and has not timely notified the Mayor of all changes in eligibility, the Mayor shall disallow the deduction for all homesteads claimed by the individual, shareholder, or member.” D.C. Code §§ 47-850.02(b)(1) and 47-863(f)(1) (2001) also provide: “If the applicant fails to notify timely, the deduction shall be rescinded without limitation for each tax year.” The homestead deduction and senior citizen tax relief application and reconfirmation form further provides at page 2:

If your property no longer qualifies for the Homestead [D]eduction, and/or Senior Citizen Tax Relief, you must notify the Customer Service Administration, in writing. . . . If you fail to notify the Customer Service Administration, you may have to pay a penalty of 10% of the annual tax, and 1.5% interest for each month the property wrongfully received the deduction or relief.

INTRODUCTION

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives. The audit objectives were to determine whether OTR: (1) administered the homestead and senior citizen real property tax deductions in an effective, efficient, and economical manner; (2) complied with requirements of applicable laws, regulations, policies, and procedures in administering the deductions; and (3) had internal controls in place to prevent or detect misuse or abuse of the deductions and to recover lost revenue.

Scope and Methodology

Review of Tax Credit Programs. We selected a sample of properties to determine if the property owners were qualified to receive the homestead deduction and senior citizen tax relief. We reviewed documents, such as applications, confirmations, tax records, and deed records. Also, we examined procedures for granting the tax credits to property owners and ensuring property owners remain eligible to receive the tax credits.

In addition, we coordinated with other District agencies to identify ineligible property owners. The DCRA provided a list of property owners who obtained basic business licenses to lease their properties, and the DCHA provided a list of property owners who leased their properties to Housing Choice Voucher Program (HCVP)¹ recipients. We searched both lists to determine if our sampled property owners leased their properties. We also worked with the Department of Health to verify that the property owners in the senior citizen tax relief program were not deceased, and we queried the DCRA FileNet database to determine if our sampled property owners registered with the Housing Regulation Administration (HRA).²

Further, we conducted interviews with OTR personnel, including staff responsible for reviewing applications and determining if property owners are eligible for the homestead deduction and senior citizen tax relief. We also reviewed applicable laws and regulations, and examined the internal controls over the application process.

Sample Design. OTR provided a database showing that 88,210 residential properties received the homestead deduction and senior citizen tax relief in FY 2004. Using the Audit Command Language software, we selected a statistical sample consisting of 184 properties. Of the 184 properties, 127 properties received the homestead deduction and the remaining 57 properties received senior citizen tax relief. In determining our sample, we used 95 percent as the confidence level, ± 5 percent as the desired precision, and 2 percent as the expected error rate.

¹The HCVP program was formerly called the Section 8 Program.

²All property owners who lease their properties must register with HRA in addition to obtaining a basic business license.

INTRODUCTION

Also, we selected a judgmental sample of 61 property owners primarily to determine if they received multiple tax credits. We also included these property owners in some of the other tests that we conducted.

Computer-Processed Data. OTR downloaded the database of property owners who received the homestead deduction and senior citizen tax relief from the RPT 2000 computer system. We did not review the underlying structures and processes of the RPT 2000 computer system. However, we examined source and supporting documents to verify the reliability of the data. We determined that the source and supporting documents generally agreed with the information in the database.

Audit Period and Standards. The audit covered tax credits and related issues for FYs 2004 and 2005. We conducted the audit in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

PRIOR AUDITS

In November 2001, the Office of the District of Columbia Auditor (District Auditor) issued an audit report on the homestead tax deduction program. The audit report disclosed that OTR had made substantial improvements in administering the tax deduction program. However, the report also disclosed that OTR did not properly and aggressively manage the program because OTR: (1) did not always ensure owners were qualified to receive the homestead and senior citizen tax reductions; (2) did not accurately calculate tax reductions; (3) needed to improve the number and quality of property eligibility audits; and (4) had not finalized written policies and procedures for managing the tax deduction program.

FINDINGS AND RECOMMENDATIONS

FINDING 1. PROPERTY TAX CREDITS
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SYNOPSIS

Property owners received the homestead deduction tax credit and/or senior citizen tax relief even though the owners did not qualify for these tax credits. This occurred when property owners received tax credits on multiple properties, and on leased properties. These conditions existed because OTR: (1) had inadequate internal controls over the application process; (2) did not coordinate with DCRA and DCHA to identify rental properties; and (3) did not require property owners to submit sufficient documentation along with their homestead deduction and senior citizen tax relief applications and confirmations. As a result, we projected OTR lost between \$1.1 million and \$3.4 million in revenue in FY 2004.

DISCUSSION

We selected a judgmental sample consisting of 61 property owners to determine whether they received tax credits on multiple or leased properties. We also selected a statistical sample consisting of 184 properties. Although property owners must occupy their properties, and use their properties as their principal residence to receive the homestead deduction and senior citizen tax relief, property owners included in both of our samples received multiple tax credits (i.e., tax credits for multiple properties). Further, property owners included in both samples received tax credits on leased properties. These property owners are shown in Exhibit C.

Results of Judgmental Sample. We performed a judgmental sample of 61 property owners to determine whether the owners received tax credits on multiple properties or leased properties.

Tax Credits Received on Multiple Properties. OTR granted multiple tax credits to 30 of the 61 property owners in the judgmental sample (Exhibit C, Schedule 1). In many instances, the owners were the sole property owners receiving tax credits receiving tax credits on two or three properties. However, some instances involved married couples receiving multiple tax credits. In one instance, a married couple owning three properties received the homestead deduction on all three properties (sample #15). The couple received the deduction for two properties using the husband's full name (such as John A. Doe), and received the deduction on the third property using the initial for his first name and his last name (such as J. Doe).

Further, we identified seven additional property owners who possibly received multiple tax credits. Some property owners received multiple tax credits during one of the tax installment periods while some received multiple tax credits during both installment periods in FY 2004.

FINDINGS AND RECOMMENDATIONS

Tax Credits Received on Leased Properties. In addition, 13 of the 61 property owners leased their properties and received tax credits (Exhibit C, Schedule 2). These property owners obtained basic business licenses through the Business and Professional Licensing Administration, registered with the HRA to lease their properties, and/or had contracts to lease their properties to HCVP recipients.

Some of these 13 property owners leased more than one of their properties and simultaneously received the tax credits. For example, one property owner received the homestead deduction for a property located on 29th Street, SE and a property located on Morris Road, SE, but he had contracts to lease both of the properties to HCVP recipients.

Different Mailing and Property Addresses. Many property owners who received multiple tax credits and leased their properties did not use their property address as their mailing address. Of the 30 property owners with multiple tax credits, 21 owners had different property and mailing addresses for one or more of their properties (Exhibit C, Schedule 1). For example, a married couple who received the homestead deduction on three properties used the address of one property as the mailing address for all three properties. In another instance, one property owner used a post office box as the mailing address for his two properties.

We recognize that there may be legitimate reasons for a person to use a different address as his/her mailing address. However, a “red flag” should be raised when property owners have different property and mailing addresses, and OTR should question whether these owners actually occupy their properties as claimed.

Results of Statistical Sample. We conducted a statistical sample on the universe of 88,210 properties to project the potential number of property owners receiving tax credits on multiple properties or leased properties, and the projected lost revenue associated with these ineligible tax credits.

Tax Credits Received on Multiple Properties. OTR granted multiple tax credits to 5 of the 184 property owners in our statistical sample (Exhibit C, Schedule 3). In one instance, a husband and wife received the homestead deduction on three properties. Both the husband and wife were listed on two of the deeds, but only the wife was listed on the third deed. In another instance, a married couple jointly owned two properties and received the homestead deduction on both properties. The couple received the tax credit on one property under the husband’s name and received the tax credit on the other property under the wife’s name.

Tax Credits Received on Leased Properties. In addition, 10 of the property owners leased their properties and received the homestead deduction and/or senior citizen tax relief (Exhibit C, Schedule 4). These property owners obtained basic business licenses through the Business and Professional Licensing Administration, registered with the HRA, and/or had contracts to lease their properties to HCVP recipients.

FINDINGS AND RECOMMENDATIONS

Different Mailing and Property Addresses. Many property owners who received multiple tax credits and leased their properties did not use their property address as their mailing address. Of the 10 property owners who simultaneously leased their properties and received the tax credits, 6 owners did not use their property address as their mailing address (Exhibit C, Schedule 5). For example, one property owner had a contract to lease her property to a HCVP recipient, but her mailing address is in Columbus, Georgia. In another example, one property owner registered with the HRA in May 2004, but her mailing address is actually in Honolulu, Hawaii.

Projected Lost Revenue. As a consequence of ineligible property owners obtaining the homestead deduction and/or senior citizen tax relief, OTR did not receive all tax revenue due. Our statistical sample results showed 7 percent of the property owners (13 of the 184 owners, accounting for overlaps) should not have received the tax credits in FY 2004. Based on a 95 percent confidence level and a sample precision of ± 3.7 percentage points, we projected that the number of ineligible property owners in the population of 88,210 ranged from 2,999 to 9,438. This translates into ineligible tax credits ranging from \$1.1 million to \$3.4 million. The point estimate is approximately \$2.2 million. In calculating the lost revenue, we used the conservative approach and only considered the minimum savings realized (\$364.80) when property owners receive the tax credits, although many owners received the senior citizen tax relief and realized additional savings. In addition, we did not include the savings resulting from the assessment cap credit because the assessment credit was not within our scope. However, we noted that many property owners in our sample also received the assessment cap credit and realized further savings. We did not include the results from our judgmental sample in our projections.

Preventing and Detecting Ineligible Property Owners. Property owners received the homestead deduction and senior citizen tax relief on multiple properties and leased properties because OTR: (1) had not developed manual and system controls; (2) did not coordinate with other District agencies to identify rental properties; and (3) did not require property owners to submit sufficient documentation.

Developing Manual and System Controls. OTR did not have adequate internal controls in place to prevent property owners from receiving the homestead deduction and/or senior citizen tax relief on multiple properties. Prior to granting tax credits to property owners, OTR did not verify whether they were already receiving tax credits on other properties.

We used a manual process to identify property owners who received multiple tax credits. The process involved reviewing the actual applications, income tax data in the Integrated Tax System (ITS), and other information. This manual process proved to be tedious and time consuming. In addition, the manual process did not allow us to conclusively determine whether some property owners received multiple tax credits.

FINDINGS AND RECOMMENDATIONS

As shown in Exhibit B, OTR currently uses the ITS to input eligibility. Ideally, there should be an edit feature in ITS to detect when property owners are already receiving tax credits. For example, when a property owner submits an application to receive either the homestead deduction or senior citizen tax relief, OTR should be able to enter the owner's social security number in ITS, and ITS should display if the owner is already receiving a tax credit. An OTR official stated that an edit feature has been developed for ITS, but it has not been implemented due to cost constraints. Until ITS is updated, OTR should develop and implement manual controls to identify owners receiving multiple tax credits. The process can be expedited if the other personnel in the Homestead Audit Unit assist the Tax Examiner with reviewing the applications. If OTR had implemented manual controls, many property owners would not have received multiple tax credits.

Identifying Rental Properties. OTR did not coordinate with DCRA to detect property owners who leased their properties. Landlords renting housing in the District must go through DCRA to obtain a basic business license and register with the HRA. OTR, at a minimum, should coordinate with DCRA to ensure that property owners are not simultaneously leasing their properties and receiving tax credits. Coordination between OTR and DCRA is the best method to detect property owners who do not meet the occupancy and residence requirements.

OTR also did not coordinate with DCHA to detect property owners who lease their properties to HCVP recipients. DCHA does not allow property owners to lease their properties to HCVP recipients unless the owners have a housing assistance payment contract and satisfy other requirements. Under current regulations, property owners who lease their properties to HCVP recipients are also required to obtain a basic business license and register with the HRA. However, we found instances where these property owners did not adhere to DCRA leasing requirements. Consequently, OTR should also coordinate with DCHA.

When DCRA provided the list of the property owners who obtained basic business licenses, we manually searched the list to determine if our sampled properties were leased. We also manually searched the DCHA list. This process was tedious and time consuming, and would be more tedious and time consuming if OTR performed a manual search for all property owners receiving the tax credits. Thus, it would be more effective for OTR to perform a computerized data match. If OTR is unable to perform a computerized data match, OTR should periodically select a sample of properties and determine if the property owners leased their properties. It will also be beneficial to perform a computerized data match with the FileNet database because we found some property owners registered with the HRA who did not obtain basic business licenses.

Improving Documentation Requirements. When property owners submitted their homestead deduction and senior citizen tax relief applications and confirmations, OTR did not require the owners to submit documents verifying that occupancy and residency requirements have been met. OTR can detect ineligible property owners by requiring

FINDINGS AND RECOMMENDATIONS

property owners to submit documents, such as utility bills, drivers licenses, etc., along with their homestead deduction and senior citizen tax relief applications and confirmations.

Further, OTR only required one property owner to sign and date the applications and confirmations. If there is more than one property owner, applicants are not required to disclose the other owners. In addition, property owners are not required to disclose if they own other District properties. In our opinion, applicants may be more reluctant to apply to receive multiple tax credits if OTR required all property owners to sign the applications and confirmations and disclose their other properties.

OTR Efforts to Cancel Tax Credits for Ineligible Property Owners

When we identified the property owners in our judgmental sample who received multiple tax credits, we provided their names to OTR. OTR personnel began taking action to remove many of the owners from the homestead deduction and/or senior citizen tax relief programs. Additionally, we provided OTR with the list of the property owners who obtained basic business licenses and leased their properties to HCVP recipients. In April 2005, personnel began sending these property owners a confirmation form. While we applaud OTR's efforts, we believe this action was not sufficient because the owners may falsify information on the form and continue to obtain the homestead deduction and/or senior citizen tax relief. OTR should have also required property owners to submit proof of residency (such as utility bills in their names, a copy of a government-issued identification showing their names and addresses, etc.) along with their confirmation forms.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, OCFO and Deputy Chief Financial Officer, OTR:

1. Develop and implement controls to prevent property owners from obtaining the homestead deduction and/or senior citizen tax relief on multiple properties.
2. Coordinate periodically with DCRA and DCHA to detect property owners who simultaneously leased their properties and received the homestead deduction and/or senior citizen tax relief.
3. Require property owners who receive the homestead deduction and/or senior citizen tax relief to submit documentation (such as utility bills, drivers licenses, etc.) along with their applications and confirmations.

FINDINGS AND RECOMMENDATIONS

4. Recover funds from ineligible residential property owners who received tax credits, and assess interest and penalties in accordance with D.C. Code §§ 47-850.04, 47-850.02(b)(1), and 47-863(f)(1) (2001), and the provisions on the application form.

MANAGEMENT RESPONSES AND OIG COMMENTS

Recommendation 1

Management Response

OCFO concurred with this recommendation. OCFO stated OTR has developed “red flag” criteria to identify potentially ineligible property owners receiving the tax credits, and properties matching the criteria will be audited annually. Additionally, OCFO stated OTR is currently in the process of culling the ITS database and the data warehouse to identify properties matching the criteria, and confirmation letters will be mailed by May 15, 2006.

OIG Comment

We consider OTR’s actions to be responsive to this recommendation. However, in its opening comments, OCFO discussed the complexities of the homestead deduction and senior citizen real property tax relief programs. OCFO stated one of the complexities involves properties owned and occupied by U.S. Congress members and staff, and foreign diplomats. However, an individual in one of these categories should be automatically disqualified from receiving the tax credits because no District address would qualify as the individual’s principle place of residence. The individual’s principle place of residence would be in the U.S. jurisdiction or foreign county which he/she represents.

Recommendation 2

Management Response

OCFO concurred with this recommendation. OCFO stated OTR has developed a relationship with DCRA and DCHA, and will periodically receive a list of property owners who applied for residential rental licenses or permits.

OIG Comment

We consider OTR’s actions to be responsive to this recommendation.

FINDINGS AND RECOMMENDATIONS

Recommendation 3

Management Response

OCFO partially concurred with this recommendation. OCFO stated OTR plans to implement procedures requiring the Homestead Audit Unit to request and review documentation for only the property owners whose eligibility is in question instead of requiring all property owners to submit documentation. OCFO indicated requiring the Homestead Audit Unit to review documentation for all property owners will place an additional burden on the unit. Additionally, OCFO stated OTR redesigned the application and reconfirmation form to eliminate ambiguity in determining eligibility.

OIG Comment

We respectfully request that OCFO reconsider its response to this recommendation. We agree that requiring the Homestead Audit Unit to review documentation for all current property owners will place an additional workload on staff. However, the Homestead Audit Unit should examine documentation for all new applicants and property owners completing reconfirmation forms. In our opinion, requiring the Homestead Audit Unit to examine documentation for only the new applicants and property owners completing reconfirmation forms will not substantially increase the workload.

Recommendation 4

Management Response

OCFO concurred with this recommendation. OCFO stated OTR is currently revising the Homestead Audit Unit procedures. Additionally, OCFO stated OTR has developed “red flag” criteria to identify potentially ineligible property owners receiving the tax credits, and properties matching the criteria will be audited annually. Further, OCFO stated property owners may be required to pay additional taxes if OTR determined they were ineligible to receive the tax credits. OCFO added, the D.C. Code only allows for a 3-year review of eligibility.

OIG Comment

We consider OTR’s actions to be responsive to this recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 2. POLICIES AND PROCEDURES

SYNOPSIS

OTR did not develop formal policies and procedures for managing and administering the homestead deduction and senior citizen tax relief programs. OTR had informal procedures which had not been reviewed and approved by appropriate officials. Further, OTR had not updated the informal procedures. We attributed these conditions to the lack of management oversight and inaction to address recommendations as noted in a previous audit. The lack of formal policies and procedures increases the risk that operational practices will not be consistent with organizational objectives and that program results will not be effectively achieved.

DISCUSSION

Policies and Procedures

While the D.C. Code establishes the criteria to obtain the homestead deduction and senior citizen tax relief, OTR is responsible for developing and implementing formal policies and procedures for managing and administering the tax credit programs. However, OTR did not have formal policies and procedures in place.

Informal Policies and Procedures. OTR had informal policies and procedures, which included an undated draft prepared by the Manager of the Homestead Audit Unit. The document provided an overview of the Homestead Audit Unit, explained the mission statement and strategic plans for the unit, summarized general functions for the unit, listed the criteria to receive the homestead deduction and senior citizen tax relief, and briefly discussed the audit process for validating tax credit recipients. The document also included activity flowcharts and essential information on the homestead deduction and senior citizen tax relief programs. However, some information included in the draft is outdated, and lacks sufficient specificity. For example, the document states, “Qualifying homeowners do not have to pay tax on \$30,000. . . .” However, as of April 2004, the tax credit threshold was \$38,000, and it is currently \$60,000. In addition, the flowcharts have not been updated to reflect current procedures.

OTR staff also provided memorandums, which included procedures applicable to the homestead deduction and senior citizen tax relief programs. However, these memorandums did not serve as a viable substitute for formal policies and procedures because they did not cover the entire application process.

FINDINGS AND RECOMMENDATIONS

Review and Approval. OTR did not provide evidence showing the “draft” document had been reviewed and approved by either the Chief of the ASD, the Director of RPTA, or the Director of OTR. In fact, the document had not been appropriately labeled as “policies and procedures.”

Management Oversight

Management Actions. Although it had been over 3 years since the District Auditor reported that OTR had not finalized internal written policies and procedures for managing the homestead deduction and senior citizen tax relief programs, OTR had not corrected the deficiency. On page 25 of its audit report, the District Auditor recommended, “The Deputy Chief Financial Officer for OTR must immediately finalize all policies and procedures relative to the Homestead Tax Deduction Program.”³ OTR provided a response to the report, but OTR did not address this specific recommendation.

Failure to take corrective action indicates management did not place a high priority on developing formal policies and procedures. In its report, the District Auditor also indicated that OTR had “draft” policies and procedures, dated October 1, 1998. Although the draft document that we reviewed did not include a date, the document appeared to be the same document referenced by the District Auditor. The Council has passed several laws affecting the homestead deduction and senior citizen tax relief programs since 1998 and, at a minimum, the draft document should have been updated to reflect those program changes, as necessary.

Management Changes. At our entrance conference, OTR officials explained there had been recent management changes. Notwithstanding these changes, some current managers responsible for homestead deduction and senior citizen tax relief programs also were responsible for the programs at the time of the last audit. We believe OTR’s management changes should not impede efforts to develop formal policies and procedures.

Operational Practices

Establishing Uniformity. Developing formal policies and procedures will ensure uniformity in granting tax credits and determining eligibility. Although the Homestead Audit Unit is primarily responsible for managing the tax credit programs, the Assessment Roll Unit is responsible for granting tax credits to property owners completing their applications at settlement. To ensure employees in each unit perform the same procedures for determining eligibility, OTR must develop formal policies and procedures.

³Homestead Tax Deduction Program Deficiencies May Have Caused the District to Lose As Much As \$44.7 Million During Fiscal Years 1998 Through 2000 (November 19, 2001).

FINDINGS AND RECOMMENDATIONS

Identifying Responsibilities. Not only do formal policies and procedures ensure uniformity, but also they identify staff responsibilities. Policies and procedures must be formalized to ensure OTR will properly function if there are management and operational personnel changes.

Developing Formal Policies and Procedures

As discussed in Findings 1, 3, and 4, OTR must make improvements in the programs to ensure that only eligible property owners receive tax credits. Developing formal policies and procedures will provide the foundation for the improvements. OTR can use its informal policies and procedures as the basis for developing the formal policies and procedures.

At a minimum, the policies and procedures should explain the entire application process, the basis for granting the tax credits, and the confirmation process. They should include the methodology for selecting property owners, and the frequency for performing confirmations. The policies and procedures should also discuss the “red flags” for identifying ineligible property owners, and the process for recouping funds owed by ineligible property owners.

The formal policies and procedures must be reviewed and approved by appropriate officials to ensure they are consistent with the D.C. Code and organizational objectives. In addition, the policies and procedures must be communicated to all staff involved in granting tax credits and ensuring that property owners continue to meet the eligibility requirements. Management must also periodically review and revise the policies and procedures, as necessary.

RECOMMENDATION

We recommend that the Chief Financial Officer, OCFO and Deputy Chief Financial Officer, OTR:

5. Improve management oversight over the homestead deduction and senior citizen tax relief programs by establishing formal policies and procedures to manage and administer the programs.

MANAGEMENT RESPONSES AND OIG COMMENTS

Recommendation 5

Management Response

OCFO concurred with this recommendation. OCFO stated OTR is currently reviewing the Homestead Audit Unit procedures, and developing procedures to efficiently monitor the

FINDINGS AND RECOMMENDATIONS

program. OCFO added, the revised policy and procedure manual will be completed by May 1, 2006.

OIG Comment

We consider OTR's actions to be responsive to this recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 3. APPLICATIONS AND RECORDKEEPING

SYNOPSIS

OTR could not provide some applications for property owners in the homestead deduction and senior citizen tax relief programs. OTR’s inability to provide the applications indicated that property owners possibly did not complete applications, and/or the owners obtained the tax credits because the prior owners received the tax credits. In addition, OTR had not recorded some current property owners in the tax system, which showed that these owners did not complete applications. The absence of a properly completed homestead deduction and senior citizen tax relief applications indicates the possibility that some property owners should not have received the tax credits. We did not include these owners in our statistical results because the owners may have satisfied all other criteria to receive the tax credits.

DISCUSSION

Property Owners Possibly Not Completing Applications. We verified whether selected property owners in our statistical sample completed an application, as required. Specifically, we verified if the property owners who purchased their properties from FY 2001 onward completed an application. Of the 184 property owners in our statistical sample, 41 owners purchased their properties in FY 2001 through FY 2004.

OTR could not provide applications and confirmation forms for 24 of the 41 property owners. The following table shows the number of missing forms for each fiscal year.

Table 4. Property Owners with Missing Applications

Period Property Purchased	Number of Property Owners	Number of Missing Applications	Percent of Missing Applications
FY 2001	8	4	50%
FY 2002	7	3	43%
FY 2003	5	4	80%
FY 2004	21	13	62%
Total	41	24	59%

It is possible that the missing applications represent property owners who did not complete applications, or applications that OTR could have misplaced. However, we noted that OTR had developed a good system for retrieving applications, and it is unlikely that these applications have been misplaced. As shown in Exhibit B, OTR hired a contractor to scan

FINDINGS AND RECOMMENDATIONS

the applications. The 24 property owners should be required to complete confirmations, and OTR should determine if they are qualified to receive the tax credits.

Property Owners Not Recorded in Tax System. In addition, we verified the accuracy of the ownership records to determine if the current property owners in our statistical and judgmental samples received the tax credits based on the prior owners' eligibility. The Recorder of Deeds, which is the official repository of all land records and general public instruments, records property ownership in "Landata." As shown in Exhibit B, the Assessment Roll Unit has access to Landata, and records ownership changes in the OTR tax system. We searched Landata to determine if the OTR tax system accurately reflected the current property owners of record.

The tax system did not include the new owners for 7 of the 184 properties in our statistical sample. Four of the seven owners purchased their properties before FY 2004 while the remaining three owners purchased their properties in FY 2004. In one instance, an owner purchased his property in FY 1997 although the tax system did not list him as the owner. In addition, the tax system did not include the new owners for some properties in our judgmental sample. These results showed that some of the new property owners did not complete homestead deduction and senior citizen tax relief applications, and the owners received tax credits because the prior owners received the credits. The property owners who have not been recorded in the tax system should be required to complete a confirmation, and OTR should determine if they are qualified to receive the tax credits.

Ensuring Property Owners Complete Tax Credit Applications

The OTR tax system is designed to grant the homestead deduction and senior citizen tax relief to the actual properties, and not the specific property owners. The system ensures only one homestead deduction or senior citizen tax relief credit is granted per property. However, the system will automatically allow new property owners without applications to receive tax credits if the prior owners received tax credits.

OTR relied on a manual process to ensure that new owners without applications did not receive tax credits. When the Assessment Roll Unit recorded ownership changes in the tax system, officials stated they removed the tax credits designated for the properties to prevent the new owners from automatically receiving the credits. OTR officials explained the process as follows:

When a new property owner did not complete an application at settlement, the unit turned off the "homestead feature" in the tax system. If the prior owner also did not receive the credit, the feature would already be off. If the prior owner received the credit, the feature would be on, and the unit had to turn the feature off. Likewise, when a new owner completed an application at

FINDINGS AND RECOMMENDATIONS

settlement, the unit turned on the “homestead feature” provided the application showed the owner met the eligibility requirements.

If the Assessment Roll Unit does not record ownership changes in the tax system and does not turn off the “homestead feature,” the system will grant tax credits to new property owners without applications. When ownership changes are not recorded, new owners will essentially receive their tax bills in the old owners’ names, which include applicable tax credits.

There is only one sure method to prevent property owners from receiving tax credits before they complete an application. This method will require the tax system to automatically terminate tax credits on properties as soon as ownership changes are recorded in Landata. Since the two systems are not linked to perform this task, OTR must continue to rely on the manual process. For the manual process to be effective, OTR must timely record ownership changes in the tax system, and ensure the homestead feature is turned off if the property owners did not complete an application.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, OCFO and Deputy Chief Financial Officer, OTR:

6. Identify current property owners who did not complete applications to receive the homestead deduction and senior citizen tax relief, require the owners to complete confirmations, and determine if the owners are qualified to receive the tax credits.
7. Develop internal controls (manual or automated) to timely record ownership changes to ensure future property owners do not receive the homestead deduction and senior citizen tax relief unless the owners complete an application.

MANAGEMENT RESPONSES AND OIG COMMENTS

Recommendation 6

Management Response

OCFO concurred with this recommendation. OCFO stated OTR has developed a plan to review the eligibility for property owners receiving tax credits, and to remove ineligible property owners from the homestead deduction and senior citizen real property tax relief programs. OCFO added, the plan includes tasks designed to review and update manual filing systems and database records, and flag property owners who do not have applications on file. OCFO stated property owners without applications will be required to complete applications, and OTR will determine their eligibility and if necessary, reverse the homestead deduction and senior citizen tax relief.

FINDINGS AND RECOMMENDATIONS

OIG Comment

We consider OTR's actions to be responsive to this recommendation.

Recommendation 7

Management Response

OCFO concurred with this recommendation. OCFO stated OTR is currently reviewing the Homestead Audit Unit procedures, and developing procedures to efficiently monitor the program. Special attention will be provided for tracking and managing documentation and making new position assignments and responsibilities. In addition, OCFO stated OTR plans to routinely perform audits to ensure new property owners complete applications before they receive the tax credits.

OIG Comment

We consider OTR's actions to be responsive to this recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 4. CONFIRMATION PROCESS

SYNOPSIS

OTR needs to improve the confirmation process to ensure property owners remain eligible to participate in the homestead deduction and senior citizen tax relief programs. In FY 2004, OTR did not mail a sufficient number of confirmations to property owners in the programs. In addition, OTR did not develop a mechanism to ensure that each property owner is periodically audited. Further, when OTR identified ineligible property owners during the confirmation process, OTR did not always require the owners to reimburse the District. Without an effective confirmation process, OTR cannot be assured ineligible property owners are quickly identified and held accountable for property taxes owed to the District.

DISCUSSION

Confirmation Mailings. In FY 2004, OTR did not mail a sufficient number of confirmations. In December 2003, OTR obtained a list of vacant properties (Class 3)⁴ from DCRA, and mailed confirmations to 988 of these property owners. Although OTR also mailed confirmations to the property owners reported by other individuals as being ineligible, the total number of mailed confirmations only represented a small portion of the 88,210 properties in the homestead deduction and senior citizen tax relief programs.

In October 2002, OTR coordinated with the Department of Motor Vehicles and the Board of Elections and Ethics, and mailed confirmations to property owners not listed in the motor vehicle system and the voter registration system. OTR also identified property owners who were not in the income tax system, and mailed confirmations to these owners. In total, OTR mailed confirmations to 29,931 property owners in October 2002. Identifying property owners not listed in these three systems is a good method to detect potentially ineligible applicants. However, OTR did not regularly use this cross-referencing procedure to identify property owners that were not listed in these other systems.

OTR should not only mail confirmations to suspected ineligible property owners, but also devise a system to ensure that each property owner is periodically audited. In our opinion, each property owner receiving the homestead deduction or senior citizen tax relief should be audited at least once every 3-5 years. Further, OTR should also mail confirmations at scheduled intervals throughout the year, instead of mailing thousands of confirmations at a

⁴Class 3 property is taxed at a higher rate of \$5 per \$100. Thus, property owners in this class who are ineligible to benefit from the tax credits and the lower tax rate could substantially undercut the District's tax revenue.

FINDINGS AND RECOMMENDATIONS

given time. Mailing over 29,000 confirmations in one concentrated time period places an inordinate workload on the Homestead Audit Unit staff.

Recouping Funds. When OTR mailed confirmations and identified ineligible property owners, OTR did not often require the owners to reimburse the District in accordance with D.C. Code §§ 47-850.04, 47-850.02(b)(1), and 47-863(f)(1) (2001). For example, when OTR mailed the 29,931 confirmations in October 2002 and identified ineligible property owners, OTR did not recoup funds owed to the District. OTR also did not assess interest and penalties against the ineligible owners. Instead, OTR simply removed the ineligible property owners from the homestead deduction and senior citizen tax relief programs.

An OTR official stated that the former Director for the RPTA decided not to require the property owners to reimburse OTR. However, the official could not provide an explanation for the decision. If the District does not penalize property owners for receiving tax credits on ineligible properties, the owners will likely apply to receive the tax credits on ineligible properties in the future. Thus, OTR should recoup funds from property owners who receive tax credits on ineligible properties. In addition, OTR should assess interest, as provided on the application and reconfirmation form. Further, OTR should assess penalties against the property owners who provide false information.

Reviewing Confirmation Forms. On the homestead deduction and senior citizen tax relief application and reconfirmation form, property owners are required to answer several questions, including three questions asking whether the applicant has a District driver's license, is registered to vote in the District, and files District individual income tax. Although these three questions are included on the form, OTR does not consider the responses in determining eligibility. It would not be out of the ordinary for a property owner to answer "no" to all of these questions when the owner initially purchases property. However, a "red flag" should be raised when a property owner is required to complete a confirmation form, and the property owner answers "no" to these three questions.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, OCFO and Deputy Chief Financial Officer, OTR:

8. Ensure a sufficient number of confirmations are mailed each year, and develop a mechanism to ensure each property owner is audited at least once every 3-5 years.
9. Identify "red flags" to detect ineligible property owners during the confirmation process, and recoup funds when credits are improperly applied.

FINDINGS AND RECOMMENDATIONS

Recommendation 8

Management Response

OCFO concurred with this recommendation. OCFO stated OTR will implement a three-phased plan to ensure a sufficient number of properties are regularly audited. During the first phase, OTR will identify potentially ineligible property owners receiving tax credits. In the second phase, OTR will update files to verify property owners completed applications, and in the third phase, OTR envisions an automated annual audit of program eligibility.

OIG Comment

We consider OTR's actions to be responsive to this recommendation. However, in its response, OCFO misstated the fiscal years that OTR mailed some confirmations. OTR mailed 5,323 reconfirmations for vacant and abandoned properties in FY 2003, and not FY 2004. Also, OTR mailed 988 reconfirmations for vacant and abandoned properties in FY 2004, and not FY 2005.

Recommendation 9

Management Response

OCFO concurred with this recommendation. OCFO stated OTR has developed "red flag" criteria to identify potentially ineligible property owners receiving the tax credits, and properties matching the criteria will be audited annually. Further, OCFO stated property owners may be required to pay additional taxes if OTR determined they were ineligible to receive the tax credits.

OIG Comment

We consider OTR's actions to be responsive to this recommendation.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

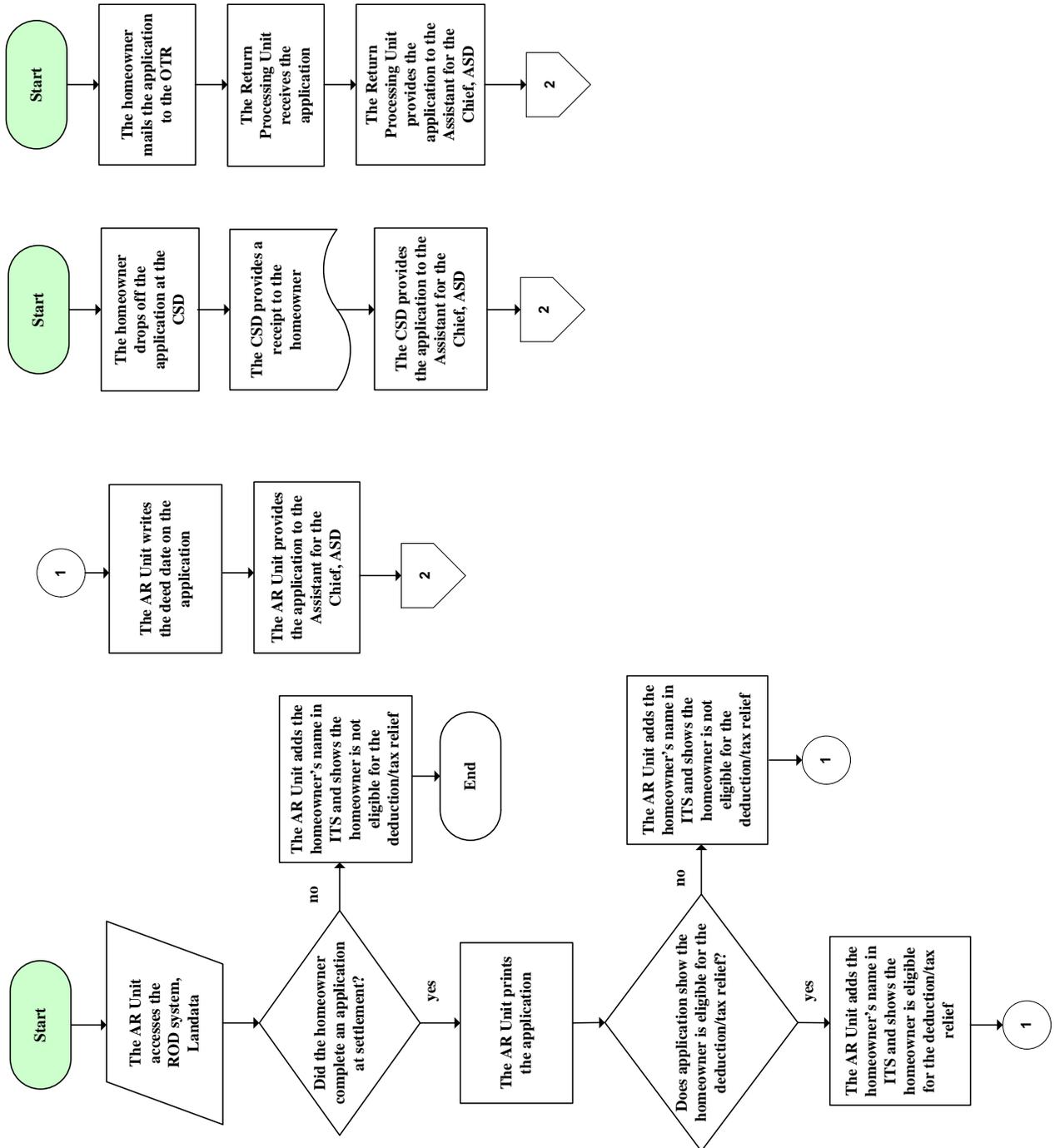
Recommendation	Description of Benefit	Amount and/or Type of Monetary Benefit	Status⁵
1	Internal Control and Compliance. Develops and implements controls to prevent new property owners from obtaining the homestead deduction and/or senior citizen tax relief on multiple properties.	Nonmonetary.	Open
2	Internal Control and Compliance. Results in DCRA and DCHA coordinating to detect property owners who simultaneously leased their properties and received the homestead deduction and/or senior citizen tax relief.	Nonmonetary.	Open
3	Internal Control and Compliance. Requires property owners who receive the homestead deduction and/or senior citizen tax relief to submit documentation (such as utility bills, driver's licenses, etc.) along with their applications and confirmations.	Nonmonetary.	Open
4	Economy and Efficiency. Recovers funds from residential property owners who received ineligible tax credits, and assesses interest and penalties.	Monetary. Approximately \$2.2 million.	Open
5	Internal Control. Improves management oversight over the homestead deduction and senior citizen tax relief programs by establishing formal policies and procedures to manage and administer the programs.	Nonmonetary.	Open

⁵This column provides the status of a recommendation as of the report date. For final reports, “**Open**” means management and the OIG are in agreement on the action to be taken, but action is not complete. “**Closed**” means management has advised that the action necessary to correct the condition is complete. “**Unresolved**” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

**EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS
 RESULTING FROM AUDIT**

Recommendation	Description of Benefit	Amount and/or Type of Monetary Benefit	Status
6	Compliance. Identifies current property owners who did not complete applications to receive the homestead deduction and senior citizen tax relief, requires the owners to complete confirmations, and determines if they are qualified to receive the tax credits.	Nonmonetary.	Open
7	Internal Control and Compliance. Develops internal controls (manual or automated) to timely record ownership changes to ensure future property owners do not receive the homestead deduction and senior citizen tax relief unless the owners complete an application.	Nonmonetary.	Open
8	Internal Control. Ensures a sufficient number of confirmations are mailed each year, and develops a mechanism to ensure each property owner is audited at least once every 3-5 years.	Nonmonetary.	Open
9	Internal Control and Economy and Efficiency. Identifies “red flags” to detect ineligible property owners during the confirmation process, and recoups funds when credits are improperly applied.	Monetary. Undeterminable.	Open

EXHIBIT B. FLOWCHART OF APPLICATION PROCESS



Flowchart Acronyms: **AR** - Assessment Role Unit; **ASD** - Assessment Services Division; **CSD** - Customer Service Division; **OTR** - Office of Tax and Revenue; **ROD** - Recorder of Deeds; **ITS** - Integrated Tax System

EXHIBIT B. FLOWCHART OF APPLICATION PROCESS (Cont'd.)

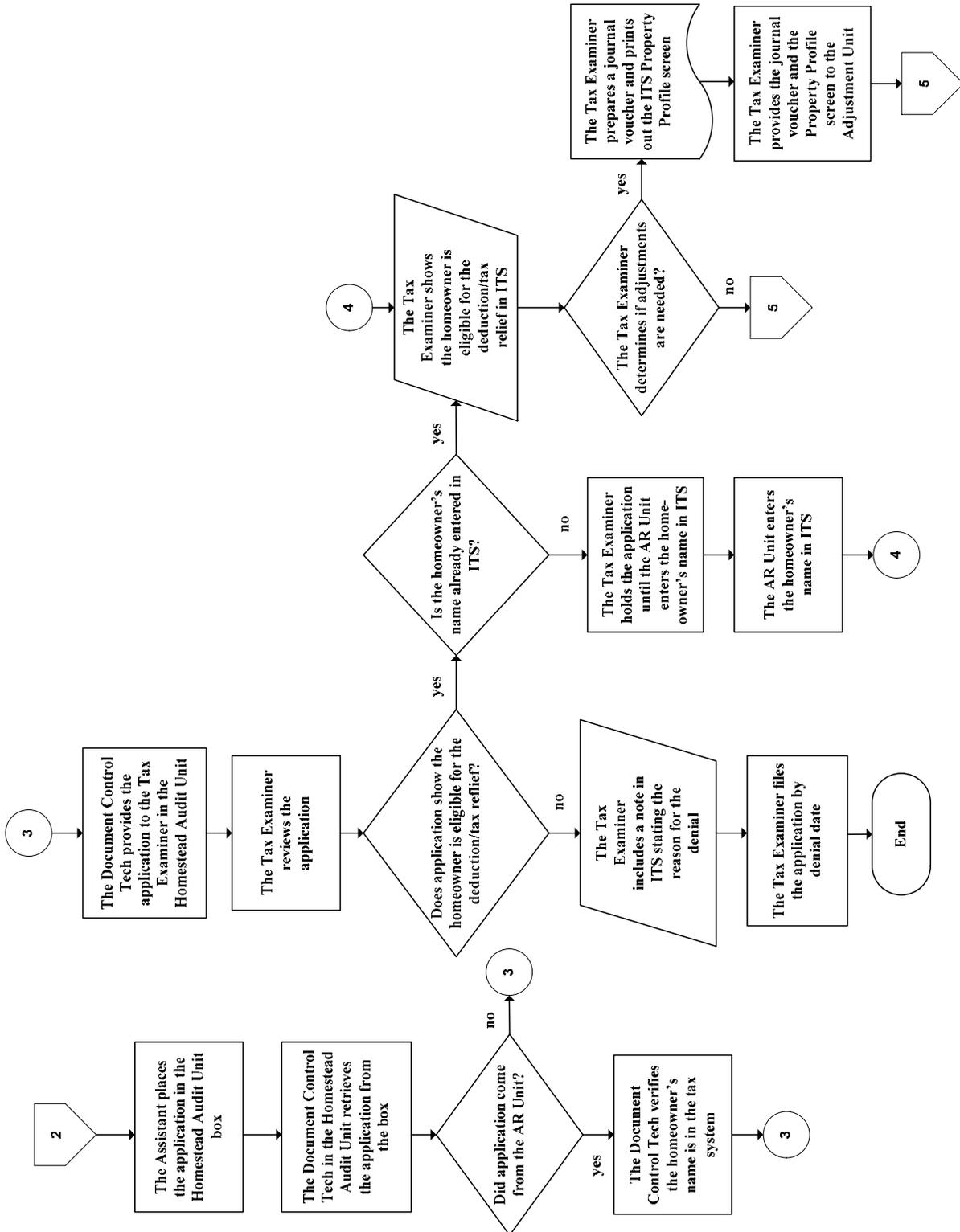


EXHIBIT B. FLOWCHART OF APPLICATION PROCESS (Cont'd.)

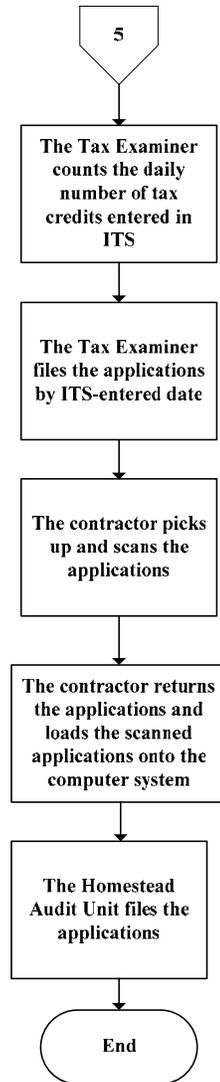


EXHIBIT C. INELIGIBLE PROPERTY OWNERS

**Schedule 1
Property Owners Receiving Multiple Tax Credits
(Judgmental Sample)**

Sample Number⁶	Property Address⁷	Tax Credit Type⁸	Different Mailing Address
3 ^a	Property 1	1	No
3	Property 2	1	Yes
4 ^b	Property 1	1	No
4	Property 2	1	No
5 ^c	Property 1	1	Yes
5	Property 2	1	No
5	Property 3	1	No
6 ^d	Property 1	1	No
6	Property 2	1	No
6	Property 3	1	No
7 ^e	Property 1	1	No
7	Property 2	1	Yes
10 ^h	Property 1	1	Yes
10	Property 2	1	Yes
11 ^b	Property 1	1	Yes
11	Property 2	1	No
14 ^b	Property 1	5	No
14	Property 2	1	No
15 ^g	Property 1	1	Yes
15	Property 2	1	Yes
15	Property 3	1	No
18 ^e	Property 1	1	No
18	Property 2	1	No
21 ^h	Property 1	1	Yes
21	Property 2	1	Yes

⁶The letters beside the sample numbers are explained on the last page of the schedule.

⁷The properties are labeled as property “1,” “2,” and “3” to avoid disclosing the addresses.

⁸Property owners listed as type “1” received the homestead deduction, and property owners listed as type “5” received senior citizen tax relief.

EXHIBIT C. INELIGIBLE PROPERTY OWNERS (Cont'd.)

**Schedule 1 (Cont'd)
Property Owners Receiving Multiple Tax Credits
(Judgmental Sample)**

Sample Number	Property Address	Tax Credit Type	Different Mailing Address
24 ^c	Property 1	1	No
24	Property 2	1	No
24	Property 3	1	No
25 ^a	Property 1	1	No
25	Property 2	1	No
30 ^b	Property 1	1	Yes
30	Property 2	1	No
33 ^f	Property 1	1	Yes
33	Property 2	1	Yes
33	Property 3	1	No
39 ^b	Property 1	1	Yes
39	Property 2	1	Yes
40 ^b	Property 1	1	Yes
40	Property 2	1	No
42 ^e	Property 1	1	Yes
42	Property 2	1	No
43 ^b	Property 1	1	No
43	Property 2	1	No
44 ^h	Property 1	1	No
44	Property 2	1	Yes
45 ^b	Property 1	1	No
45	Property 2	1	Yes
48 ^c	Property 1	1	No
48	Property 2	1	No
48	Property 3	1	Yes
50 ^e	Property 1	1	Yes
50	Property 2	5	No
52 ^b	Property 1	1	No
52	Property 2	1	No

EXHIBIT C. INELIGIBLE PROPERTY OWNERS (Cont'd.)

Schedule 1 (Cont'd)
Property Owners Receiving Multiple Tax Credits
(Judgmental Sample)

Sample Number	Property Address	Tax Credit Type	Different Mailing Address
53 ^b	Property 1	1	No
53	Property 2	1	No
54 ^b	Property 1	1	Yes
54	Property 2	1	No
56 ^a	Property 1	1	No
56	Property 2	1	Yes
57 ^d	Property 1	1	No
57	Property 2	1	Yes
57	Property 3	1	No
59 ^h	Property 1	1	Yes
59	Property 2	1	Yes
60 ^c	Property 1	5	Yes
60	Property 2	1	No
60	Property 3	1	Yes

- ^a Married property owners owning and receiving tax credits on two properties
- ^b Sole property owner owning and receiving tax credits on two properties
- ^c Sole property owner owning and receiving tax credits on three properties
- ^d Two property owners owning and receiving tax credits on two properties, with one of the two owners also owning and receiving a tax credit on a third property
- ^e Married property owners owning and receiving a tax credit on one property, with one of the two owners also owning and receiving a tax credit on a second property
- ^f Two property owners owning and receiving tax credits on three properties
- ^g Married property owners owning and receiving tax credits on three properties
- ^h Other categories

EXHIBIT C. INELIGIBLE PROPERTY OWNERS (Cont'd.)

**Schedule 2
Property Owners Receiving Tax Credits on Leased Properties
(Judgmental Sample)**

Sample Number	Property Address	Tax Credit Type	Different Mailing Address	Obtained Basic Business Licenses	Rented to HCVP Recipients	Registered with HRA
1	Property 2	1	Yes		X	
10	Property 1	1	Yes		X	
10	Property 2	1	Yes		X	X
15	Property 2	1	Yes			X
22	Property 1	1	Yes		X	
22	Property 2	1	No		X	
24	Property 1	1	No		X	
24	Property 2	1	No			X
33	Property 1	1	Yes			X
34	Property 2	1	No	X		
39	Property 1	1	Yes		X	
39	Property 2	1	Yes		X	
40	Property 1	1	Yes	X		
48	Property 3	1	Yes			X
51	Property 2	1	Yes		X	
52	Property 1	1	No			X
53	Property 2	1	No			X

EXHIBIT C. INELIGIBLE PROPERTY OWNERS (Cont'd.)

**Schedule 3
 Property Owners Receiving Multiple Tax Credits
 (Statistical Sample)**

Sample Number	Property Address⁹	Tax Credit Type	Different Mailing Address
2	Sample Property	1	Yes
2	Other Property	1	No
5	Sample Property	1	Yes
5	Other Property	1	No
19	Sample Property	1	No
19	Other Property 1	1	No
19	Other Property 2	1	Yes
40	Sample Property	5	No
40	Other Property	1	No
106	Sample Property	1	No
106	Other Property	1	No

⁹The properties identified as “Sample Property” represent the properties included in our sample. The “Other Property” designation represents additional properties owned by the property owners.

EXHIBIT C. INELIGIBLE PROPERTY OWNERS (Cont'd.)

**Schedule 4
 Property Owners Receiving Tax Credits on Leased Properties
 (Statistical Sample)**

Sample Number	Tax Credit Type	Different Mailing Address	Obtained Basic Business Licenses	Rented to HCVP Recipients	Registered with HRA
9	1	No	X		
19	1	No			X
24	1	Yes	X		X
40	5	No			X
47	1	No			X
101	5	Yes			X
116	1	Yes			X
126	1	Yes	X		X
155	1	Yes		X	X
165	5	Yes			X

EXHIBIT D. MANAGEMENT RESPONSE

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




06 MAR -2 AM 10:25

Natwar M. Gandhi
Chief Financial Officer

MAR -1 2006

Charles J. Willoughby
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Mr. Willoughby:

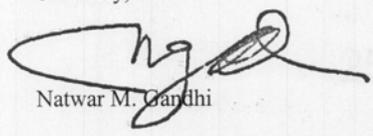
Re: OIG Inquiry number 04-1-27AT

Thank you for the opportunity to respond to the draft report on the Office of the Inspector General's Audit of the Homestead Deduction and Senior Citizen Real Property Tax Relief Programs (OIG No. 04-1-27-AT).

We have reviewed the recommendations in the draft report and have enclosed our comments to the recommendations.

If you have any questions regarding our response or require additional information, please feel free to contact Sebastian Lorigo, Executive Director, Office of Integrity and Oversight, at 202-442-6433.

Sincerely,


Natwar M. Gandhi

Enclosure



1350 Pennsylvania Avenue, N.W., Suite 209, Washington, DC 20004 (202) 727-2476
www.dccfo.com

EXHIBIT D. MANAGEMENT RESPONSE

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



Prepared For: Office of the Inspector General
717 14th Street, N.W.
Washington, DC 20005

Prepared By: Government of the District of Columbia
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Suite 203
Washington DC 20004

Subject: Management Response to Audit of the Homestead Benefit and
Senior Citizen Real Property Tax Relief Programs

Contents: OCFO Management Response Summary Memorandum2

GENERAL COMMENTS

Background and Context of the Homestead Benefit and Senior
Citizen Tax Relief program3

Overview of the Report.....5

Complexity of Homestead/Senior Citizen
Tax Benefit Program.....5

SPECIFIC FINDINGS OF THE REPORT

Audit Findings Pertaining to the Homestead Benefit
and Senior Citizen Tax Relief Program7

Management Response to Specific Recommendations7

EXHIBIT D. MANAGEMENT RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE of the CHIEF FINANCIAL OFFICER
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Prepared By: Government of the District of Columbia
Office of the Chief Financial Officer
1350 Pennsylvania Avenue, N.W., Suite 203
Washington D.C. 20004

Subject: Management Response to Audit of the Homestead Benefit and
Senior Citizen Real Property Tax Relief Programs

Date: February 20, 2006

The Office of the Chief Financial Officer (OCFO) is pleased to provide this response to the draft report entitled "Audit of the Homestead Benefit and Senior Citizen Real Property Tax Relief Programs." The draft report of the Inspector General (IG) raises several issues about the administration and management of the Homestead Benefit and Senior Citizen Tax Relief programs. The OCFO response is organized into two major categories: 1) specific findings and 2) OTR's management response to the recommendations relating to those findings. Both categories contain page citations of the statements and/or findings being addressed.

It is our goal to continue to cooperate with the Inspector General in order to address each of the issues raised in this draft audit report, to determine mutually agreeable solutions to these issues, to continue to improve the administration of the Homestead Benefit and Senior Citizen Tax Relief program, and to maximize the positive benefits of this important and popular tax relief benefit.

EXHIBIT D. MANAGEMENT RESPONSE

GENERAL COMMENTS:

I. Background and Context of the Homestead Benefit and Senior Citizen Tax Relief Program

Program Definition

Homestead Benefit: This benefit reduces a real property's assessed value by \$60,000 prior to computing the yearly tax liability. The Homestead benefit is limited to residential property. To qualify:

1. An application must be on file with the Office of Tax and Revenue;
2. The property must be occupied by the owner/applicant and contain no more than 5 dwelling units (including the unit occupied by the owner);
3. The property must be the **principal residence** (domicile) of the owner/applicant.

For a cooperative housing association, the unit must be occupied by the shareholder (or member) as his/her principal residence (domicile), and the benefit is granted to the cooperative, which will supply and collect the applications.

For a property transferred to a trust, the property may qualify for the Homestead benefit if:

- The property was eligible for the Homestead benefit before the transfer;
- The property is transferred to a revocable trust;
- The transfer is not for money (or other consideration);
- The property remains the principal place of residence of the applicant//transferor/trustor before and after the transfer.

Program function flow

How the benefit is allowed: If a properly completed and approved application is filed with OTR between October 1 and March 31, the property will receive the benefit for the entire tax year (and for all tax years in the future assuming the property owner remains eligible). If a properly completed and approved application is filed between April 1 and September 30, the property will receive one-half of the benefit reflected on the second installment (and full benefits for all tax years in the future).

Properties will continue to receive Homestead Benefit tax relief as long as there is no change in eligibility, such as property ownership or owner-occupancy status.

How the benefit is removed: Owners of properties receiving the tax benefits are responsible for notifying the agency when eligibility ceases. Written notice must be sent within 30 days of a change in ownership or owner-occupancy status.

In an ongoing effort to ensure accurate real property tax billings, the Office of Tax and Revenue (OTR) requires property owners to confirm their eligibility for the Homestead Benefit and/or Senior Citizen Tax Relief.

EXHIBIT D. MANAGEMENT RESPONSE

Owners who receive a reconfirmation form from OTR should complete the form and return it to OTR. Failure to return a completed and signed copy of the reconfirmation form will result in the cancellation of the Homestead Benefit and/or Senior Citizen Tax Relief benefits.

Implementation History

D.C. Law 2-45, entitled the "Residential Property Relief Act of 1977," established the Homestead tax benefit. Additionally, D.C. Law 6-153, entitled the "Real Property Tax Rates for Tax year 1987 Act of 1986," established senior citizen property tax relief. The law provided for a reduced residential real property tax liability for qualified property owners age 65 or older. Pursuant to D.C. Code, Section 47-863(b), the property tax liability is reduced by 50% for senior citizens who qualify for the Homestead tax benefit and meet other qualifying criteria.

Audit History: In the early 1990's, RPTA senior staff recognized serious weaknesses in the audit capabilities of the Homestead system then in place. They contracted Municipal Tax Bureau (MTB) to conduct a Homestead tax credit audit. Between August 1996 and July 1999, the firm audited 58,000 parcels. More than 16,000 accounts were billed more than \$13 million, and \$9 million was collected.

The release of the Homestead Application Tracking System in January 1998 provided a crucial tool to capture and organize Homestead applications, as did online access to the District's Land Records Management system in January 2000. However, OTR was still relying on manual input of Homestead applications, which allowed gaps and inconsistencies to propagate between reception and processing. In May 2001, enhancements to the Real Property Tax Roll and Billing System (RPT2000) allowed the system to audit Homestead and senior citizen accounts at the time of property transfer. The infrastructure was now in place to allow RPTA to perform systematic audits on the parcels receiving Homestead benefits:

- **FY 2001 – 12,258 reconfirmations**
 - 11,558 reconfirmation mailings were made to property owners receiving Homestead benefits without Homestead applications on file
 - 700 reconfirmation mailings were made to property owners receiving Homestead benefits who had nuisance citations pending;
- **FY 2002 – 6,240 reconfirmations**
 - 3,248 reconfirmation mailings to property owners receiving Homestead benefits whose social security numbers were not found on District income tax rolls;

EXHIBIT D. MANAGEMENT RESPONSE

- 2,609 reconfirmation mailings to property owners receiving Homestead benefits whose home addresses were not in the District;
- 301 reconfirmation mailings to property owners receiving Homestead benefits whose names were entity names;
- 82 reconfirmation mailings to property owners receiving Homestead benefits whose properties had gone to foreclosure;

- **FY 2003 – 29,931 reconfirmations**
 - 29,931 reconfirmation mailings to property owners receiving Homestead benefits who could not be matched to OTR's data warehouse file matrix.

- **FY 2004 – 5,323 reconfirmations**
 - 5,323 reconfirmation mailings to property owners receiving Homestead benefits whose properties were listed on the Department of Consumer and Regulatory Affairs (DCRA) Class 3/Vacant and Abandoned list.

- **FY 2005 – 2,053 reconfirmations**
 - 988 reconfirmation mailings to property owners receiving Homestead benefits whose properties were listed on the DCRA Class 3/Vacant and Abandoned list.
 - 1,065 reconfirmation mailings to property owners receiving Homestead benefits who did not meet domiciliary criteria.

II. Overview of the Report

As noted in the Inspector General's draft report (OIG No. 04-1-27AT page 7) and evidenced by a prior audit report by the Office of the District of Columbia Auditor (District Auditor) OTR had made substantial improvements in administering the tax benefit program and the OCFO and OTR are eager to identify and rectify issues with the administration of the Homestead tax benefit program and continue to seek ways to improve the performance and revenue generation of the program.

III. Complexity of Homestead/Senior Citizen Tax Benefit Program

The OCFO and OTR generally acknowledge the Inspector General's report's factual findings. However there are assumptions made by the OIG concerning the reconfirmation (audit) process and benefit qualification requirement contained in the report that did not take into consideration the overall complexity of administering the Homestead and Senior Citizen Tax Relief Program.

Development of a mechanism to ensure each property owner is periodically audited (3-5 years) (p. 20) and ensuring a sufficient number of confirmations are mailed to property owners in the program (p. ii) are well intended recommendations. Within the

EXHIBIT D. MANAGEMENT RESPONSE

scope of the Homestead program audits and the number of reconfirmations they contained were complicated by existing procedures, predominately administered by manual processes. OTR agrees with the IG assertion that “mailing over 29,000 confirmations in one concentrated time period places an inordinate workload on the Homestead Audit Unit staff” (p. 21). Recognizing this OTR adopted a more measured approach to auditing over the last two years (see Audit History, p. 6) concentrating its efforts on auditing isolated sub-sections (such as Vacant/Abandoned and District residency ineligibility criteria) of the Homestead and senior citizen tax benefit universe rather than conducting larger wholesale reconfirmations. OTR believes culling ineligible recipients from the entire 90,000 Homestead and senior citizen recipient list would reduce the complexity of auditing the program and be more efficient and productive than a random reconfirmation of one-third of the program participants.

Complexity within the program has also resulted from the various legislative changes affecting real property taxes and the variety of tax relief programs. These legislative changes and tax programs require resources and are complex in their administration. For instance, Council amendments to the Homestead program to re-define residency as being domiciled in the District without a specific legislative definition of the term domiciled, had a significant impact on the Homestead audit program. Eliminating ambiguity from the application form in an effort to prove residency was a significant challenge.

Within the Homestead program are a number of owner-occupied properties whose owners are not subject to District of Columbia income tax. Although these property owners may or may not vote in the District some do own and occupy a home in the District and would qualify for the Class 1 tax rate. These are Members of Congress, Congressional staffers, Diplomatic Corps and individuals working for international organizations such as the World Bank or International Monetary Fund. The transient residency of many members of these organizations results in many individuals who own residential real estate in the District but who do not meet the definition of domiciled – typically confirmed by the applicants registration, or lack there of, to vote in the District. Identifying these property owners is difficult, simply because all District property owners are not registered to vote in the District, and therefore the process requires an inordinate amount of resources directed at identifying ineligible property owners within this category. OTR has had to define additional conditions and determine what documentation was needed to determine a property owner’s residency in lieu of the incomplete voter registration rolls. New procedures in place will insure the integrity of the program and does not slow down existing processes by requiring the review of unnecessary documents.

OTR believes that streamlining the application/reconfirmation form, auditing and reconfirming property owners by specifically identified criteria, and reducing the number of documents needed to substantiate an individual’s domiciliary would address the complexity issue of determining eligibility.

EXHIBIT D. MANAGEMENT RESPONSE

SPECIFIC FINDINGS OF THE INSPECTOR GENERAL'S DRAFT REPORT

Real Property Tax Administration as developed a plan that will review the eligibility of all property receiving the Homestead and/or senior citizen tax benefits and remove those tax benefits from ineligible property owners. The plan, once implemented, will also put in place internal controls to prevent and detect future misuse or abuse of the benefits and to recover lost revenue.

The Homestead Audit Program Action Plan is designed to address the following objectives:

1. Identify and flag those properties receiving the benefit that would most likely not qualify and then remove those properties from eligibility
2. Using the Integrated Tax System (ITS), implement an automated annual maintenance component to regularly audit the program and collect owed revenues

Specifically the plan, as proposed, will also address the nine recommendations presented by the Inspector General in report OIG No. 04-1-27AT. The plan has also made recommendations that go beyond the IG's observations and addresses systemic issues identified by OTR for improved efficiency of the administration of the program.

I. Audit Findings Pertaining to Homestead Benefit and Senior Citizen Tax Relief Program

IG Finding 1: Property Tax Credits - *Property owners received the Homestead benefit tax credit and/or senior citizen tax relief even though the owners did not qualify for these tax credits. (p. 8)*

IG Recommendation 1: *Developing and implementing controls to prevent property owners from obtaining the Homestead benefit and/or senior citizen tax relief on multiple properties*

OTR Response:

OTR has developed "red flag" criteria with which it will identify property owners who may be inappropriately obtaining the Homestead and/or senior citizen tax benefits relief on individual or multiple properties. The criteria are:

1. Mailing address do not match premise address
2. Owner is an entity name
3. Owner does not file DC income tax
4. Premise address is different from driver's license address and/or vehicle registration records
5. Owner is not registered to vote in the District.
6. Owner applied to DCRA or DCHA for residential rental licenses/permits
7. Premise address is identified as vacant and abandoned by DCRA

EXHIBIT D. MANAGEMENT RESPONSE

OTR is currently in the process of culling the ITS database as well as the data warehouse for a listing of the Homestead properties that match these criteria. Homestead reconfirmation letters will be mailed by May 15, 2006 and this set of properties will be annually audited by RPTA staff for eligibility.

Once an automated system is implemented, these controls will periodically identify all ineligible property owners receiving the Homestead and/or senior citizen tax benefits and sets in motion a systematic method to reverse those tax benefits and collect owed revenues.

IG Recommendation 2: *Coordinating, periodically, with DCRA and DCHA to detect property owners who simultaneously leased their properties, and received the Homestead benefit and/or senior citizen tax relief.*

OTR Response:

OTR has developed a relationship with DCRA and DCHA to periodically receive a list of properties whose owners have applied for residential rental licenses or permits and those property owners that have applied for permits to lease their properties. These lists will be compared with existing OTR data to identify ineligible property owners. Again, this will be a manual process that will be automated into ITS when funding is possible.

IG Recommendation 3: *Requiring property owners who receive the Homestead benefit and/or senior citizen tax relief to submit documentation (such as copies of utility bills, driver's licenses, etc.) along with their applications.*

OTR Response:

OTR's revised Homestead Audit Program Action Plan has redesigned the Homestead and Senior Citizen Tax Relief Application and Reconfirmation form to eliminate ambiguity of the property owner's qualification to receive the tax benefit. The property owner will know their eligibility after answering the questions on the form. As part of the revised reconfirmation process new procedures will be implemented that will require OTR's Homestead Audit Unit (HAU) to request and review documentation only from those property owners whose eligibility is in question after completion of the Homestead application and before eligibility is granted. The revised form eliminates the additional burden placed on the HAU to review thousands of documents prior to granting the tax benefit.

IG Recommendation 4: *Recovering funds from residential property owners ineligible to receive tax credits, and assess interest and penalties when appropriate.*

EXHIBIT D. MANAGEMENT RESPONSE

OTR Response:

The revised procedures for identifying criteria for auditing Homestead properties at the outset of the reconfirmation process will allow the Homestead Audit Unit (HAU) to audit those properties deemed ineligible to receive the tax benefits. DC code allows a three-year review of the property owner's Homestead eligibility. The review may require individuals found ineligible for prior year's benefit to repay back taxes owed. OTR's plan will also establish a referral procedure with OTR's Compliance Operations to target those property owners who remain non-responsive, and to refer cases of potential fraud to the OTR Criminal Investigations Unit.

IG Finding 2: Policies and Procedure - *OTR did not develop formal policies and procedures for managing and administering the Homestead benefit and senior citizen tax relief programs. (p. 14)*

IG Recommendation 5: Improving management oversight over the Homestead benefit and senior citizen tax relief programs by establishing formal policies and procedures to manage and administer the programs.

OTR Response:

A review of existing HAU procedures is currently underway and OTR is developing new policies and procedures to efficiently administer the program. OTR's plan proposes the development of a revised policy and procedure manual, review of day-to-day operations, documenting proper tasks and action steps, and establishing internal controls that will allow improved management oversight and administration of the program. The revised policy and procedure manual will be completed by May 1, 2006.

IG Finding 3: Applications and Recordkeeping - *OTR's inability to provide all completed Homestead benefit and senior citizen tax relief applications for property owners within the program. (p. 17)*

IG Recommendation 6: Identifying current property owners who did not complete applications to receive the Homestead benefit and/or senior citizen tax relief, and requiring the owners to complete confirmations and determine if they are qualified to receive the tax credits.

EXHIBIT D. MANAGEMENT RESPONSE

OTR Response:

Included in OTR's plan are tasks designed to review and update manual filing systems and database records by using a new application and reconfirmation form review procedure. This internal control will flag those property owners receiving the Homestead benefit but do not have an application on file. The application review procedures will require the property owner to complete an application to determine if they are qualified to receive the tax credits. Those property owners deemed ineligible will be subjected to credit reversal and be sent bills for back taxes owed. This initiative is outlined in Phase II of OTR's plan and is a parallel project to manually update, or automate if possible, HAU files.

IG Recommendation 7: *Developing internal controls (manual or automated) to timely record ownership changes to ensure future property owners do not receive the Homestead benefit and senior citizen tax relief unless the owners complete an application.*

OTR Response:

A review of existing HAU procedures is currently underway. Special attention will be given to tracking documentation through the HAU, managing that documentation with improved internal controls and new position assignments and responsibilities. New administrative procedures for disqualified and non-responsive property owners will be implemented to accommodate the potentially large response by targeted property owners. Currently the HAU routinely processes "cancellations" of the Homestead and Senior Citizen Tax Relief benefits received within OTR's Contract Tracking System (CTS). New procedures are being developed to match "cancellations" of the Homestead and Senior Citizen Tax benefits with new applications received from mortgage companies at the Recorder of Deeds (ROD). OTR's plan also includes routine random audits of recently sold properties receiving the Homestead benefit prior to sale and see if a) the new buyer has an application on file, and b) if not, was the benefit taken away appropriately.

IG Finding 4: Confirmation Process - *OTR's need to improve the confirmation process for ensuring property owners remain eligible to participate in the Homestead benefit and senior citizen tax relief programs. (p. 20)*

IG Recommendation 8: *Ensuring a sufficient number of confirmations are mailed each year, and developing a mechanism to ensure each property owner is audited at least once every 3-5 years.*

EXHIBIT D. MANAGEMENT RESPONSE

OTR Response:

Phase I of the audit plan will sift through the entire Homestead database to identify property owners who are most likely ineligible to receive the tax benefits. Phase I can stand alone as a one-time review of the program or could be used as an annual eligibility maintenance activity. Phase II will manually update, or automate if possible, HAU files to verify that Homestead applications are on file. Phase III of the plan is envisioned as an automated annual audit of program eligibility. Once implemented the three-phased plan will ensure a sufficient number of properties are regularly audited.

IG Recommendation 9: *Identifying “red flags” to detect ineligible property owners during the confirmation process, and recouping funds where credits were improperly applied.*

OTR Response:

See OTR response to IG Recommendation 1 and 4, above.