



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

OFFICE OF INTEGRITY AND OVERSIGHT

OCTOBER 2008

**FINAL REPORT ON REVIEW OF THE OFFICE
OF TAX AND REVENUE
TAX SALE PROGRAM**

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

Office of Integrity and Oversight



MEMORANDUM

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

FROM: Robert G. Andary, Executive Director
Office of Integrity and Oversight

DATE: October 16, 2008

SUBJECT: Final Report on the Review of the Office of Tax and Revenue Tax Sale Program
(Report No.: IA:OTR:2803-01)

Attached for your information and record is the final report, which summarizes the results of the Office of Integrity and Oversight's (OIO) audit of the Office of Tax and Revenue (OTR) Tax Sale Program for FY 2007. The purpose of our review was to determine whether proper controls exist and are operating effectively to ensure that the tax sale program is conducted in accordance with District laws and regulations. Our objectives included gaining an understanding of the tax sale process, the identification of management controls and systems used, determining whether receipts were properly accounted for in the District of Columbia General Ledger, and determining whether refunds related to the tax sale were issued accurately.

This report contains 16 findings detailing the conditions we found during our audit. Overall, we found major deficiencies in the administration of the tax sale program. There is a heavy reliance on manual processing, a lack of reconciliation of tax sale activity, and a lack of training. As a result of these deficiencies the data contained in the system of record, DC Ledger, is not complete or reliable, and does not adequately reflect the status of the tax sale program. We noted numerous discrepancies and lax controls over the management of the tax sale process.

Specifically, our findings include but are not limited to:

- Lack of written desk procedures
- Lack of systemic controls
- Lack of reconciliation of deposits and refunds on a monthly basis.
- Questionable refunds

- Misclassification of subsequent payment refunds
- Overpayment of interest

We made appropriate recommendations to address the issues cited herein, and if appropriately implemented, will strengthen the internal controls over the management of the tax sale program.

Our discussions with OTR senior management indicated that they fully concurred with the findings and recommendations presented in this report. The complete OTR management response is attached to this report as Appendix I. We expect OTR to prepare a formal action plan to address the findings and our office will follow up on this report in FY 2009 as part of our continued monitoring and review of OTR operations.

We appreciate the assistance and cooperation that you and your staff provided us during the review. Should you have any questions on the draft report or need additional information, please contact me at 442-6433 or Mohamad Yusuff at 442-8240.

Attachments

cc: Lucille Dickinson, Chief of Staff, OCFO
Angell Jacobs, Director of Operations, OCFO
Glen Groff, Director of Operations, OTR
Ritchie McKeithen, Real Property Tax Administration Director, OTR
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EXECUTIVE SUMMARY

Pursuant to our Internal Audit Annual Work Plan for fiscal year 2008 and oversight function of the Office of Integrity and Oversight, the internal auditors of the Office of Integrity and Oversight (OIO) performed a review of the Tax Sale Program at the Office of Tax and Revenue. This review was also initiated as a result of recent allegation of tax fraud discovered at the Office of Tax and Revenue. The purpose of this review was to determine whether proper controls exist and are operating effectively to ensure that the Tax Sale is conducted in accordance with governing laws and regulations.

During the initial phase of this review, OIO issued a "Management Alert" on noted significant internal control weaknesses within Tax Sale Program that warrant immediate attention (**Management Alert Report No.: IA:OTR:2803-M02 issued March 24, 2008**). In that alert, we requested that OTR take immediate action including extensive training as well as incorporate systemic enhancements and postponement of the proposed July tax sale which has now been rescheduled to September 2008. OIO believes the postponement is prudent and necessary under the circumstances.

The Office of Tax and Revenue (OTR), is under the Office of the Chief Financial Officer (OCFO), and is responsible for assessing and collecting all taxes and properly accounting for all tax revenues. The Tax Sale is an annual public auction of properties with delinquent taxes for one year or more, which is administered by the OTR under its Real Property Tax Administration (RPTA), Assessment Services Division Tax Sale Unit.

The Tax Sale Unit is comprised of 8 employees, who are responsible for maintaining the records and files associated with the tax sale. The purpose of the tax sale is to auction off properties that are delinquent in their real property tax obligation. In FY 2007, the tax sale program had over 300 participants, auctioned over 2,500 properties and collected \$53 million.

Summary Results of Our Review

This report contains 16 findings detailing the conditions we found during our audit. Overall, we found major deficiencies in the administration of the tax sale program. There is a heavy reliance on manual processing, a lack of reconciliation of tax sale activity, and a lack of training. As a result of these deficiencies the data contained in the system of record, DC Ledger, is not complete or reliable, and does not adequately reflect the status of the tax sale program. We noted numerous discrepancies and lax controls over the management of the tax sale process.

Specifically our findings include but are not limited to:

- Lack of written desk procedures
- Lack of systemic controls

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- Lack of reconciliation of deposits and refunds on a monthly basis.
- Questionable refunds
- Misclassification of subsequent payment refunds
- Overpayment of interest

Summary of Findings

1. Lack of a Comprehensive User Manual to Administer the Tax Sale Program: Based on our inquiries, we found that a Tax Sale Procedures Manual is not readily available or does not exist. The tax sale technicians within the Tax Sale Unit are experienced and knowledgeable of tax sale procedures (based on past practices), but lack a comprehensive procedures manual documenting and standardizing the required steps to process transactions in these two systems.
2. No Reconciliation between the District's General Ledger (SOAR) and the DC Ledger: We found that there is a lack of integration in the systems used to manage tax sale has made the tax sale process intensively manual and cumbersome. OTR's reliance on manual entry of tax sale transactions increases the risk that transactions processed in SOAR may not be entered timely and/or correctly in the Tax Sale and DC Ledger systems.
3. Inadequate Systemic Controls within the DC Ledger: We found lack of adequate user class security, lack of controls over entry of subsequent payments, and lack of quality assurance testing on system modifications.
4. The DC Ledger is not an effective management tool: The DC Ledger contains information for both open and closed tax sale cases making it cumbersome to determine the status of a property.
5. The Tax Sale Unit Issued Handwritten Redemption Refund Vouchers generated outside of the DC Ledger: Of the 56 vouchers sampled, totaling \$1.17 million selected for testing, 43 vouchers totaling \$907,344 or 77% were handwritten and generated outside of the DC Ledger. The use of handwritten vouchers increases the risk of duplicate refund payments.
6. Redemption Refunds were Not Properly Recorded or Supported: Of the 56 redemption refund vouchers selected for review, The Tax Sale Unit was unable to provide 6 of the vouchers selected for refund testing and 25 vouchers classified as redemption refunds were actually subsequent payment refunds.
7. Subsequent Payment Refunds Processed Manually: Of the \$1.9 million in subsequent payments recorded in Agency Object 8106-Subsequent Payments, \$1.3 million or 86% were manually generated. This increases the risk of duplicate refund payments.

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8. Lack of Supporting Documentation to Support Subsequent Payment Refunds: Of the subsequent refunds tested, there was no evidence included with the refund voucher to substantiate the refund payment.
9. Lack of Review of Subsequent Payments Entered in the DC Ledger: As a result of lack of supervisory review and oversight, the tax sale unit failed to identify subsequent payments that were entered in SOAR but not in DC Ledger and certain data entry errors.
10. Overpayment of Interest on Refunds: The Tax Sale Unit did not provide supporting documentation to substantiate the redemption date used when processing refunds causing a potential overpayment of interest in excess of the amount due. For the purposes of our testing, we relied on the payment date noted on the real property assessment database payment history screen.
11. OTR did not Collect Forfeiture Fees of Tax Sale Deposits: The failure to process amounts paid as forfeits immediately after the five (5) business days allowed resulted in \$8,316 (20% of \$41,580) in lost revenue to the District.
12. Lack of a secured filing system: The tax sale unit lacks a secured filing system that adequately presents the history of the tax sale activities.
13. Failure to verify Foreclosure Action: The District does not have a process in place to verify that purchasers filed an action to foreclose the property owner's right of redemption within one year from the date of the certificate of sale or that they pay the bill for tax deed within 30 days from the date the District sends the Bill for Tax Deed.
14. Failure to Enforce Deed Payment Requirements leads to Lost revenue: The Office of Tax and Revenue has not formally requested the Office of the Attorney General file a motion to dismiss the case where the deed is not paid within the 30-day window. As a result, deeds are allowed to stay open an inordinate amount of time.
15. Tax Sale Participation Requirements are not Monitored: Tax Sale officials do not currently have a process in place to verify before registration, whether the individual: (1) owes real property taxes to the District, and/or (2) is an employee prevented from participating in the tax sale.
16. Improvements to the Tax Sale Workbook Required: Our review of the tax sale workbook identified additional requirements that should be communicated to potential tax sale buyers.

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Recommendations

To address the major issues noted herein, we recommend OTR take the following actions. Additionally, specific recommendations are listed under each finding:

- Prepare written desk procedures and directives of the Tax Sale Process
- Provide cross training to all staff on the entire tax sale process including understanding of the DC Code and municipal regulations
- Improve systemic controls in the DC Ledger through enhanced programming
- Implement a consistent reconciliation process to ensure that all transactions are recorded.
- Improve the filing system to include all related transactions for a Square and Lot in one place by Tax Year.
- Ensure compliance with applicable laws and regulations.

Agency Response:

OTR officials concurred fully with our finding and recommendations in our draft report and indicated that corrective actions have been initiated in some instances. A copy of OTR's response in its entirety is provided as Appendix I to this report.

OIO Auditor Evaluation:

We fully concur with the planned actions of the OTR management, and we consider these actions to be responsive to the issues identified, and when fully implemented, should satisfy the intent of our recommendations.



Mohamad K. Yusuff, CPA
Director of Internal Audit
Office of integrity and Oversight

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INTRODUCTION AND PURPOSE

Pursuant to our annual work plan for FY 2008 and oversight function of the Office of Integrity and Oversight, the internal auditors of the Office of Integrity and Oversight (OIO) performed a review of the Tax Sale Program at the Office of Tax and Revenue. This review was also initiated as a result of recent allegation of tax fraud discovered at the Office of Tax and Revenue.

The purpose of this review was to determine whether proper controls exist and are operating effectively to ensure that the Tax Sale is conducted in accordance with governing laws and regulations.

During the initial phase of this review, OIO issued a "Management Alert" on noted significant internal control weaknesses within Tax Sale Program that warrant immediate attention (**Management Alert Report No.: IA:OTR:2803-M02 issued March 24, 2008**). In that alert, we requested that OTR take immediate action including extensive training as well as incorporating systemic enhancements and postponing the proposed July tax sale, which was subsequently rescheduled to September 2008. OIO believes the postponement was prudent and necessary under the circumstances.

BACKGROUND

The Office of the Chief Financial Officer (OCFO), Office of Tax and Revenue (OTR) Real Property Tax Administration (RPTA), collects and administers the real property tax program for the District of Columbia. The Tax Sale is conducted yearly to auction properties that have delinquent taxes in compliance with D.C. Code 47 Chapter 13a, *Revisions to the Tax Sale Program*.

Overview of the Tax Sale Program

Real property taxes become overdue if payment is not received the day after the installment date (March 31 and September 15). Delinquent taxes, on the other hand, are real property taxes that remain unpaid one year after they become overdue and are eligible for inclusion in the tax sale. The 2007 tax sale, for example, includes properties whose real property taxes were not paid by March 31, 2006, September 15, 2006, and any other earlier installments not previously paid. Typically with a July Tax Sale, delinquent notices are sent by May, before the tax sale is advertised, requesting property owners to pay their delinquent taxes by June 1 in order to prevent their properties from being auctioned during the Tax Sale.

The Tax Sale Database is the system used to enter and process information of the current Tax Sale and consists of a table with real property information and another table for Buyer information. The information in the real property table is uploaded from a file

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obtained from the OTR Information Systems Administration (ISA) generated from the Integrated Tax System (ITS) and includes all properties with delinquent taxes. The file also includes information of properties with delinquent amounts obtained from other agencies such as WASA.

OTR pursuant to D.C. Code § 47-1340(a) notifies all taxing agencies of the Mayor's intention to hold a Tax Sale and requires such taxing agencies submit, within 30 days after receipt of the notice, a statement to the Mayor certifying all taxes in their records not previously certified that should be included in the Tax Sale. This notice to other agencies is done at least 60 days prior to the mailing of delinquent notices. For a July Tax Sale, the OTR RPTA Chief Assessment Services Division (ASD) sends a memo in February to taxing agencies that they need to certify to the tax sale and to respond within 30 days. OTR receives the certification by late March of properties agencies are certifying as delinquent and to be sold at the July Tax Sale.

Properties in the Tax Sale listing are advertised in two area newspaper of general circulation. Included in the advertisement are dates for seminars intended to instruct potential participants of the entire tax sale process including information on the registration process. As the Tax Sale generally lasts for one week (Monday through Friday), all properties listed are divided in five groups with one group assigned for auction each day of the week. Properties are listed for the amount of delinquent tax which also includes a \$150 Tax Sale "O-Type" Fee to cover administrative costs. The Tax Sale O-Type Fee is included in the file received from ISA. The Tax Sale O-Type Fee covers: (1) fee for mailing the notice; (2) fee for publication of notices including newspaper advertisement; (3) auctioneer's fee; and (4) a fee assessed for legal representation.

Registration

Interested individuals are instructed to register for the Tax Sale at OTR's customer service area. A Tax Sale technician in the customer service area provides the interested individual with the Real Property Tax Sale Registration form, a four-copy carbon copy form, that includes, among others, the individual's name, address, social security number or Federal Employer Identification Number (FEIN) as well as the requirement to disclose whether an employee in a position not permitted to participate in the tax sale, including his/her immediate family, and whether he/she owes real property taxes to the District.

Information from the Tax Sale Registration form is entered by the Tax Sale technician into the Tax Sale Database where a bid number is generated. The Buyer is then instructed to pay a deposit (a minimum of \$100 is required) at the cashier's office for an amount at least 20 percent of the amount he/she intends to bid. Once payment is made, the processing cashier validates all four copies, retains two copies (white and gold copies), and provides the registrant with the remaining two (2). The registrant then returns to the Tax Sale Technician.

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The Tax Sale technician retrieves the registrant information in the Tax Sale Database, enters the amount of the deposit, retains and files the canary copy of the registration, and returns the pink copy along with the cashier's receipt to the registrant. Information entered in the Tax Sale Database is used during the Tax Sale to ensure that bidders have sufficient deposits to cover the amounts bid. The registrant is instructed to bring a copy of his/her registrations to the Tax Sale.

Tax Sale

On the date the Tax Sale begins, registrants bring copies of the registration forms to obtain a "number card," which is used to bid on properties. Auctions are tape recorded. The auctioneer is provided copy of the Real Property Tax Bill (C-Card) for each property to begin the auction, with the auction starting at the amount of delinquent tax and with increments of \$100 up to \$1,000, and increments of \$1,000 thereafter. Bidders raise their number cards and, as the bidding amount continues to rise, bidders who do not want to continue bidding put down their number cards until the only card left is of the successful bidder. The amount paid for the property can be greater than the delinquent taxes due. The overage is considered surplus. The bidder number along with the surplus amount is handwritten in the C-Card by the Tax Sale technician and provided to another Tax Sale technician to enter the amounts into the Tax Sale Database verifying the bidder has deposited an amount sufficient to cover 20 percent of the amount bid.

During the Tax Sale, registrants may also increase the deposit on hand to maximize their bidding capacity in a process similar to registering to participate. The registrant obtains another registration form from the Tax Sale technician (except that the bidder number remains the same during the Tax Sale) and is instructed to bring the payment to the cashier's office. Once validated, the cashier retains the white and gold copies, provides the remaining 2 to the registrant who returns the canary copy to the Tax Sale technician who retrieves the bidder information and enters the newly deposited amount.

Reconciliation and Balancing After Tax Sale

The Monday after the Tax Sale ends, the Tax Sale Database generates letters and Buyer Detail Reports which are sent to Buyers indicating the *balance due within five days*. Within five days after the end of the Tax Sale, Buyers bring the Buyer Detail report to Customer Service Walk-in where a Tax Sale Unit employee assists the Buyer. Just as during the registration process, a Tax Sale technician provides the Buyer with a Real Property Tax Sale Registration Form that includes the balance due. The Buyer completes the form and delivers it to the cashier's office with payment. Once paid, the Buyer returns the form to the Tax Sale technician for entering in the Tax Sale Database. The amount, entered in the "Balance Due" field, allows for the generation of the Certificate of Sale, which is mailed to Buyers one month after the Tax Sale ends.

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If a Buyer fails to pay the full amount five days after the Tax Sale ends, the Buyer forfeits 20 percent of their deposit and OTR processes a refund for the difference. The tax sale database is manually checked for forfeitures. A letter is sent to the buyers that have forfeited to notify them that a refund will be processed for their deposit less 20 percent.

After the Tax Sale ends, the Tax Sale is reconciled and balanced. Five to six weeks after the completion of this process, refunds resulting from this reconciliation and balancing are processed through the Tax Sale Ledger and are mailed to registrants that did not bid on any property and to Buyers whose deposit exceeded the amount bid. After the reconciliation and balancing, the information of successful Buyers in the Tax Sale Database is uploaded to the DC Ledger.

Payment of Subsequent Real Property Taxes

A key provision of Title 9 DCMR found in § 316.4 is the payment of subsequent real property taxes. The main purposes of the payment of real property taxes ‘subsequent to obtaining the Certificate of Sale’ are, according to Tax Sale officials, to: (1) prevent the property from being included in next year’s tax sale, and (2) eliminate the need to pay outstanding real property taxes when the Court Order foreclosing the property owner’s right to redeem is issued.

Failure to pay the “subsequent taxes”, will cause the property to be included in next year’s tax sale where another buyer may purchase the property. Typically a Buyer submits a request to pay subsequent taxes. This request is usually submitted in the month of January after a July Tax Sale. The buyer comes in to the office to pay the subsequent taxes at the Cashier’s office and the tax sale office files a copy of the deposit ticket. Subsequent tax payments are not posted in ITS but only disclosed in the notes section of the corresponding property.

The Tax Sale unit manually removes the C-Cards of properties for which prior Tax Sale Buyers paid subsequent real property taxes in order to prevent the properties from being included in the Tax Sale.

Redemption Refund

If a delinquent property owner whose property was sold at Tax Sale fully pays their real property tax liability including any other agency liabilities within one year from the Certificate of Sale, the property is considered redeemed by the owner. When Buyers note that real property taxes have been paid and are current, they contact the Tax Sale Unit requesting a refund. A Buyer in adhering to due diligence, periodically checks the District’s website for information on the status of real property taxes on properties for which the Buyer holds a Certificate of Sale.

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Documentation required to obtain a refund includes (1) Certificate of Sale, (2) a release from the Buyer's legal counsel that the property owner has satisfied all expenses incurred by the Buyer or a written affidavit that no costs are due to him/her by the property owner, and (3) if applicable, a copy of the complaint filed with the Superior Court as evidence that he/she initiated foreclosure action within one year of the date on the Certificate of Sale and Praeceptum (dismissal 9 DCMR § 316.6(a)(2)). The Buyer may also provide a copy of the District's website showing the payment of outstanding real property taxes by the property owner.

In those instances where the Buyer does not initiate foreclosure within one (1) year after the date on a Certificate of Tax Sale, the Buyer forfeits to the District all payments made on behalf of the property and the District should credit such forfeited payments to a revenue account.

If the Buyer has also paid subsequent taxes on the specific Square, Suffix, and Lot (SSL), then a separate refund is generated for any subsequent real property tax payments.

OBJECTIVES, SCOPE, METHODOLOGY

The primary objectives of this review were to:

- Gain an understanding of the tax sale process.
- Determine compliance with District Code laws and regulations
- Reconcile SOAR to the DC ledger for the FY 2007 Tax Sale through verification of deposits and refunds
- Determine the accuracy and validity of refunds issued in FY 2007 for overpayments, non-bids, redemptions and cancellations

To accomplish the objectives, we reviewed the applicable D.C. Code provisions of Title 47, Chapter 13a (revised 2001), interviewed OTR officials and staff, walked through the tax sale process, reconciled Tax Sale Ledger and DC Ledger to SOAR for FY 2007 related transactions, and performed a test of refunds.

RESULTS

We noted discrepancies and lax controls over the management of the tax sale process. Specifically, we found:

- Lack of written desk procedures
- Lack of systemic controls
- Lack of reconciliation of deposits and refunds on a monthly basis.
- Questionable refunds
- Misclassification of subsequent payment refunds
- Overpayment of interest

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As we stated in our alert dated March 24, 2008, *Immediate Action on Internal control Weaknesses within OTR's Tax Sale Program (IA:OTR:2803:M02)*, OTR must take immediate action including extensive training as well as incorporate systemic enhancements. We recommend management consider postponing the Tax Sale which was moved to September 2008. OIO believes postponement is prudent and necessary under the circumstances.

FINDINGS AND RECOMMENDATIONS

Findings one (1) through three (3) were communicated to the Office of Tax and Revenue in an internal Audit alert titled, *Immediate Action on Internal Control Weaknesses in OTR's Tax Sale Program* dated March 24, 2008. OIO received a formal written response from OTR on July 18, 2008. OTR concurred with all of OIO's findings and recommendations identified in the alert.

1. Lack of a Comprehensive User Manual to Administer the Tax Sale Program

As part of our review, OIO auditors met with Tax Sale Unit staff and inquired about the agency's operating procedures for handling tax sale transactions in the two subsystems used: *Tax Sale Ledger* and *DC Ledger*. The Tax Sale Ledger is used during the tax sale season to record deposits, record the properties sold, issue non-bidder refunds and overpayment refunds. At the conclusion of the tax sale after all payments are made, the tax sale ledger data is uploaded to the DC Ledger which is the system used to manage transactions related to all tax sale years.

Based on our inquiries, we found that a Tax Sale Procedural Manual is not readily available or does not exist. The tax sale technicians within the Tax Sale Unit are experienced and knowledgeable of tax sale procedures, but lack a comprehensive procedures manual documenting and standardizing the required steps to process transactions in these two systems.

Recent changes in management of the Tax Sale Unit have resulted in the appointments of individuals in acting capacities, who are not intimately familiar with the entire tax sale process and procedures to execute complex transactions. As a result, there is a significant knowledge gap at the supervisory level of the Tax Sale unit.

The foregoing, combined with the rapid approach of the 2008 Tax Sale makes the need for a user manual a matter of urgency.

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Recommendations

We recommend that the Real Property Tax Administration Director immediately direct and designate experienced staff member(s) to document (and also request assistance from the Information Specialist for Real Property Tax Administration) all required steps needed to process tax sale transactions in the Tax Sale and DC Ledger systems for the purpose of developing and disseminating a manual for guiding all staff in the processing of tax sale transactions.

Additionally, we recommend management provide extensive training to staff on all aspects of the tax sale, and incorporate enhancements to systemic controls as noted in Finding 3 below.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

2. No Reconciliation between the District's General Ledger (SOAR) and the DC Ledger

Currently, there is no systems interface between the Tax Sale Ledger, DC Ledger, and SOAR. As a result, management over tax sale activities has become a manually intensive process. As part of our audit, OIO reconciled the transaction activities for FY 2007 posted to the Tax Sale ledger and the DC Ledger, compared to information posted in the SOAR to determine if the data were entered timely and accurately. Our reconciliation disclosed the following variances in the table below:

**TABLE I
Comparative Data: SOAR vs. Tax Sale & DC Ledger
For Fiscal Year Ended September 30, 2007**

	Per SOAR	Per Tax Sale Ledger & DC Ledger	Variance	% Difference
Tax Sale Deposits	\$53,288,708	\$53,299,264	\$(10,556)	<1%
Subsequent Payments	2,442,646	627,677	1,814,969	74%
Tax Sale Refunds*	35,664,378	31,704,559	3,959,819	11%

* The SOAR refund figures comprised agency object 8106-subsequent refunds, 8151-tax sale redemption/cancellation refunds, and 8152-tax sale interest.

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In our reconciliation of subsequent payments, we found the difference was due to the fact that a staff member did not enter payments into the subledgers. In the case of tax sale refunds, we noted the variance was due to timing differences and conflicting data maintained in the systems is under review. Specifically, we noted the following:

TABLE II

**Reconciliation of the DC Ledger/Tax Sale Ledger Refunds to SOAR
For Fiscal Year Ended September 30, 2007**

Tax Sale Refunds per SOAR	\$35,664,378
Subtract: Timing Difference (Vouchers Created in FY 2006, Processed in SOAR FY07)	(4,425,110)
Subtract: Items processed in SOAR not in DC Ledger	(2,905,248)
Add: Items created in DC Ledger not processed in SOAR	2,779,132
Add: Differences in the voucher amount reported in DC Ledger vs. SOAR*	583,052
Adjusted Refunds in SOAR	\$31,696,204
Difference	8,355
Tax Sale Refunds per DC Ledger/Tax Sale Ledger	\$31,704,559

* For example, Voucher 54146 was posted in the DC Ledger as \$1,197.45 to Adolphus Gaines but was processed in SOAR for \$49,826.21 to Jefferson Tax Fund.

As of the date of this audit report, we have an unreconciled difference of \$8,355. We could not determine the reason for this difference at the conclusion of our testing.

A critical component of a sound internal control system is the independent verification of the processing of transactions in various systems by means of reconciliations. Page 11 of the *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, issued by the Government Accountability Office (GAO), states that "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation." Additionally, U.S. Office of Management and Budget (OMB) Circular A-127 Section 7.b states that "Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems."

The lack of integration in the systems used to manage tax sale has made the tax sale process intensively manual and cumbersome. OTR's reliance on manual entry of tax sale transactions increases the risk that transactions processed in SOAR may not be entered timely and/or correctly in the Tax Sale and DC Ledger systems. Compounding this issue is the fact that there is no evidence of reconciliations

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performed to ensure that deposits and refunds in SOAR reflect the activity in the DC Ledger. Adequate resources are necessary to minimize this risk including personnel assigned to the supervision and verification of transactions for the timely identification and correction of errors.

Recommendations

In the interim, we recommend the Tax Sale Unit manager:

- Develop and implement controls to compensate for the lack of integration to include, among others, the daily reconciliation of deposits, final payments and refunds between SOAR and the Tax Sale and periodic reconciliations of the payment of subsequent real property taxes and redemption refunds between the DC Ledger and SOAR.
- Hire a full-time accountant to work in the Tax Sale Unit whose responsibility will be to reconcile all transactions and activity on a daily or weekly basis.

We also recommend that OTR, in the near future, integrate the tax sale system into the Integrated Tax System and develop the interface between SOAR and ITS to minimize the need for manual entry of transactions.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

3. Inadequate systemic controls within the DC Ledger

The Tax Sale Ledger and DC Ledger are the systems of record for tax sale activities. During our review, we noted several control issues that we believe must be resolved immediately. Specifically, we have found:

- Lack of adequate user class security,
- Lack of controls over entry of subsequent payments
- Lack of quality assurance testing on system modifications.

Currently, the system allows all employees with rights to use the system to void transactions. The employee's ability to void transactions without supervision,

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coupled with a lack of integration and reconciliation between the ledger and SOAR, increases the risk that a refund can be issued multiple times to the same taxpayer without detection.

OIO's Penetration Test of the DC Ledger:

To further test the systemic controls of the system, the Office of Integrity and Oversight attempted to enter a subsequent payment into the DC Ledger. A subsequent payment is a payment made by a successful bidder to prevent the property from going to tax sale in the next year while the buyer goes through the court foreclosure process. If the property is redeemed by the owner, the successful bidder is refunded the subsequent payment with interest.

By design, OIO created a fictitious buyer and identification number, and entered a valid Square and Lot. The information was accepted by the system and successfully posted. We found there was validation of the square and lot; however, no validation procedure was performed to determine whether "the buyer's name" as entered was the "actual buyer of record" for the property. Additionally, the data entry screen did not request a date the payment was made or a deposit ticket number to assist in the reconciliation process. When we inquired as to our rights in the system, we were informed that we had read only with some write capabilities.

Additionally, we found that the Integration Specialist responsible for maintaining the system, has not developed and maintained a systems procedural document; moreover, she is the only programmer who works with the system and modifies the system on a regular basis. Modifications are incorporated into the system without going through quality assurance testing to ensure program changes are properly authorized, documented and duly implemented. The specialist communicates modifications to staff verbally and not in writing.

Recommendations

We recommend that OTR senior management take the following actions:

- Restrict the void functionality within DC Ledger. The ability to void transactions should be restricted to the manager or supervisor within the unit. If a transaction is executed in error and must be voided, the employee should write up the issue and provide an explanation to the supervisor for approval.
- Create a "read only user class" to ensure that employees who are not within the Tax Sale Unit can read data without the ability to modify.
- Perform a comprehensive systems review of the DC Ledger to identify other weaknesses in systemic controls.
- Develop a systems procedures document to provide guidance on how to use the system.

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- Incorporate a quality assurance function for systemic changes to the tax sale subledgers to ensure that system modifications achieve desired results and do not adversely impact the function of the system.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

4. **The DC Ledger is not an effective management tool**

The DC Ledger contains information for both open and closed tax sale cases making it cumbersome and time consuming for employees to determine the status of a property. During our audit of refunds, we found that we had to segregate current or active transactions from completed or closed transactions. If not segregated properly, it is possible to incorrectly link transactions. Additionally, transactions are processed independently although the tax sale activity is interrelated. Subsequent payments for example are entered in the DC Ledger as independent transactions although they are associated with a property and with a buyer. When a property is redeemed or a deed is issued, related transactions are not processed simultaneously but in a piece-meal fashion. We confirmed this through discussions with personnel who indicated that, when processing redemption refunds, related subsequent payment refunds are not processed simultaneously but only after the buyer asks for them.

Processing transactions independently increases the risk that unrelated activity may be processed for the purpose of inappropriately obtaining a refund.

Recommendations

We recommend the Tax Sale Unit management work with the OTR Information Systems Administration (ISA) in overhauling the DC Ledger system. In the long term, we recommend Tax Sale be included in the functionality requirements of the ITS replacement system.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

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The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

5. Handwritten Redemption Refund Vouchers Issued

OIO sampled 56 vouchers totaling \$1.17 million which represented 77 properties. Of the 56 vouchers selected in our test sample, 42 vouchers (63 properties) totaling \$655,144 or 56% were handwritten and generated outside of the DC Ledger. The use of handwritten vouchers increases the risk of duplicate refund payments.

During our testing we found the Tax Sale Unit issued two duplicate redemption refunds in FY 2007 totaling \$11,216.51. (See Exhibit B) Additionally, as a result of issuing handwritten vouchers to taxpayers, the OTR did not provide accurate 1099-Int documents to tax sale buyers.

The Tax Sale process requires the generation of a redemption schedule and voucher from the DC Ledger. Further, the Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, issued by the Government Accountability Office (GAO) states, "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." The guidelines further states that control activities which occur at all levels and functions of the entity, include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation, help ensure that all transactions are completely and accurately recorded.

At the time of our review, the staff responsible for these transactions was not available for comment. Therefore, we were unable to determine the reason for the issuance of handwritten vouchers for redemption refunds.

Recommendations

OIO recommends the Tax Sale Unit Manager:

1. Direct the integration specialist to block the manually issued refund accounts chosen in our sample, from issuance of additional refunds.
2. Locate all handwritten refund vouchers and perform follow-up analysis to determine if the properties have been redeemed in the DC Ledger. For any property that has been refunded outside of the DC Ledger, those accounts should also be locked from further activity.
3. Implement procedures immediately to ensure that all vouchers are generated through the DC Ledger. This directive should be provided to the Revenue

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Accounting Administration to ensure that they do not accept handwritten vouchers for processing.

4. Obtain a file from SOAR of tax sale vouchers paid. This information should be downloaded into the DC Ledger on a daily or weekly basis.
5. Issue 1099-Int statements to buyers who received refunds with interest.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

6. Redemption Refunds were Not Properly Recorded or Supported

During our review, OIO judgmentally selected 56 redemption/cancellation refund vouchers totaling \$1,172,719.57. The vouchers selected represented items that were not recorded in the DC Ledger or voided after generation in the DC Ledger. The 56 vouchers represented multiple properties, which translated into 77 properties tested as follows:

TABLE III: Redemption/Cancellation Refunds

Number of Vouchers	Properties	Result	Amount
6	6	Not found	\$252,200.29
25	46	Redemption/Cancellation	798,560.16
25	25	Subsequent Payment Redemption refunds	121,959.12
56	77		\$1,172,719.57

Source: OIO from OTR Records

Overall, the redemption refund vouchers were not properly supported. Specifically, of the 50 vouchers available for review, none were properly supported with evidence of foreclosure filing, dismissal of complaint or evidence of the redemption date. Additionally we noted the following:

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TABLE IV: Redemption/Cancellation Refund Errors

Properties	Result	Error
7	Vouchers generated then voided in the DC Ledger	258,505
1	Duplicate refund. ¹	9,954
2	Refund amount greater than certificate of sale	540
1	Certificate of sale not found	28,690
	Total Error	\$297,689

The Tax Sale process requires the generation of a redemption schedule and voucher from the DC Ledger for all refunds. Further, the Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, issued by the Government Accountability Office (GAO) states, “transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.”

Tax Sale Unit staff responsible for the preparation, review and approval of the sampled redemption refunds vouchers were unavailable to discuss the exceptions noted in our review; therefore we were unable to determine the reason for the above noted errors.

Subsequent Payment Redemption Refunds

Our sample included “subsequent payment redemption refunds” totaling \$121,959.12. Of this amount, \$93,865 (base and surplus) was improperly charged to Agency Object 8151 rather than 8106. Subsequent payment redemption refunds are paid to buyers who have paid subsequent tax payments on a property; however, after the payment, it has been redeemed. The buyer receives the subsequent payment with interest upon redemption of the property.

OIO performed additional steps on the subsequent payment refunds to ensure the subsequent payments were actually received. We requested of the Tax Sale Unit staff provide a copy of the subsequent payment check, standard deposit, SOAR voucher with the DRTS number.

Of the 25 vouchers selected, we were unable to verify payment for 2 subsequent payment refund vouchers issued. The staff could not locate payment and deposit documentation to support the issuance of the subsequent payment refund for the following properties:

¹ Voucher VRD53307 issued on January 24, 2007 and Voucher VRD53469 issued on March 7, 2007.

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Square and Lot Number	Voucher Number	Subsequent Payment Refund Voucher Amount
5331 0032	VRD52637	\$768.00
5769 0844	VRD53177	454.80
		\$1,222.80

We also noted one (1) duplicate subsequent payment refund voucher issued in FY 2007 for the same property square and lot number in the amount of \$1,262.33.²

Recommendations

We recommend that the Tax Sale Unit implement a checklist of all documentation required for the issuance of redemption refunds including the following:

1. The original Certificate of Sale generated in the DC Ledger affixed with the D.C. Seal
2. Screen print of proof of payment of delinquent taxes by the property owner; and
3. Copy of the complaint filed in the D.C. Superior Court.

Furthermore, we recommend that the Tax Sale Unit establish the following procedures documenting the receipt and recording of subsequent payments and supporting the issuance of subsequent payment refunds:

- a. The Redemption Schedule of Subsequent Payments generated in the DC Ledger;
- b. Proof of subsequent payment including the Standard Deposit Ticket, cash register receipt, copy of cashier's check, SOAR Revenue/Receipt voucher, and listings of properties paid including the property identified on the refund voucher;
- c. Calculation of principal, penalty and interest due;
- d. Web-site print-out identifying the redemption date; and
- e. Evidence that a foreclosure action was filed in the D.C. Superior Court or evidence of dismissal filed in the D.C. Superior Court

Agency Response:

OTR officials concurred fully with our finding and recommendations.

² Voucher VRD53772 issued June 5, 2007 and Voucher VRD54098 issued September 24, 2007.

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OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

7. Subsequent Payment Refunds Processed Manually

OTR recorded subsequent payments and subsequent payment refunds from Agency Object 8106. In FY 2007, OTR issued \$1,930,681 subsequent payments refunds. We found that \$1,663,136 or 86% of the refunds issued from Agency Object 8106 (\$1,663,136/\$1,930,681) were processed manually instead of through the DC Ledger. Manual processing increases the risk of issuing duplicate refunds. Additionally, the OTR did not provide accurate 1099-Int documents for tax purposes.

The Tax Sale process requires the generation of a redemption schedule and voucher from the DC Ledger for all refunds. As noted earlier, the Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, issued by the Government Accountability Office (GAO) states, "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions." The guidelines further states that control activities which occur at all levels and functions of the entity, include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation, help ensure that all transactions are completely and accurately recorded.

At the time of our review, the staff responsible for these transactions was not available for comment. Therefore, we were unable to determine the reason for the issuance of handwritten vouchers for subsequent payment refunds.

Recommendations

OIO recommends the Tax Sale Unit manager:

1. Direct the integration specialist to block the manually issued refund accounts chosen in our sample, from issuance of additional refunds.
2. Locate all handwritten refund vouchers and perform follow-up to determine if the properties have been redeemed in the DC Ledger. For any property that has been refunded outside of the DC Ledger, those accounts should also be locked from further activity.
3. Implement procedures immediately to ensure that all vouchers are generated through the DC Ledger. This directive should be provided to the Revenue Accounting Administration to ensure that they do not accept handwritten vouchers for processing.

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4. Obtain a file from SOAR of tax sale vouchers paid. This information should be downloaded into the DC Ledger on a daily or weekly basis.
5. Issue 1099-Int statements to buyers who received refunds with interest.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

8. Lack of Supporting Documentation to Support Subsequent Payment Refunds

Of the \$1,663,681 of subsequent payment refunds processed manually, we randomly selected for testing 52 vouchers totaling \$390,589 or 23%. Some vouchers represented multiple properties; therefore, the total number of subsequent payment refunds tested was for 100 properties. Of the 100 subsequent payments refunded in 52 vouchers, we found the Tax Sale Unit did not include all documentation required to support subsequent payment refunds. In all cases reviewed, we only found the manually prepared Redemption Schedule of Subsequent Payments accompanied the refund voucher. *There was no evidence included with the refund voucher that the tax sale buyer made the subsequent payment.* To verify the subsequent payment refunds, we requested from the Tax Sale Unit the Standard Deposit Ticket, SOAR Revenue/Receipt voucher, copy of the check and the listing of properties paid for all 100 subsequent payment refunds.

Additionally, we noted the following:

**Table IV
Subsequent Payment Refunds
Results of Testing**

Item Count	Result	Amount Refunded	Percentage of Total Refunds Selected for Review
2	The tax sale buyer did not pay subsequent payments. See Exhibit 2.	\$13,459.11	3%
3	Duplicate refunds. See Exhibit 3	2,571.33	1%
18	Properties redeemed on a date before the subsequent payment was made resulting	46,606.69	12%

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	in excess interest.		
25	Properties for which no evidence was provided by the Tax Sale Unit that the tax sale buyer filed the foreclosure action within the required one year from the date of the certificate of sale.	162,864.27	42%
16	Refund processed manually although subsequent payment in DC Ledger	52,749.12	13%
36	Subsequent payments not entered in the DC Ledger.	112,338.85	29%
100	Total Subsequent Payment Refunds Selected for Review	\$390,589.37	100%

Source: SOAR Revenue Refund Vouchers and Redemption Schedule of Subsequent Payments; documentation evidencing subsequent payments including the Standard Deposit Tickets, SOAR Revenue/Receipts and the listing of properties included in the subsequent payment reflecting the principal, penalty, and interest paid; Real Property Assessment Database's website; and the District of Columbia Superior Court's Civil Public Access' website.

DC Code § 47-1354(b) states that “The purchaser shall receive a refund of the payment [of other taxes, interest, and penalties owing on the real property] upon redemption, with interest as required to be paid by the redeemer, only if the purchaser’s Certificate of Sale is not void and if the purchaser provides proof satisfactory to the Mayor that the purchaser made the payment.”

Recommendations

We recommend the Tax Sale Unit develop, document and implement detailed procedures on the issuance of subsequent payment refunds. The following documentation should accompany the subsequent payment refund voucher:

- a. Redemption Schedule of Subsequent Payments generated in the DC Ledger;
- b. Proof of the subsequent payment including the Standard Deposit Ticket, Cash Register’s receipt ticket, SOAR Revenue/Receipt voucher, copy of cashier’s check, and listings of properties paid including the property in question;
- c. Tax Sale Ledger reflecting the principal, penalty and interest due;
- d. Web-site print-out reflecting the redemption date; and
- e. If property is redeemed after one year from the date of the certificate of sale; :
 - i. Evidence that the tax sale buyer file the foreclosure action; and
 - ii. Copy of dismissal filed with the Superior Court.

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Additionally, there should be evidence of supervisory review to ensure that all supporting documentation is proper before submission to the Revenue Accounting Administration for processing in SOAR.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

9. Lack of Review of Subsequent Payments Entered in the DC Ledger

We found that the Tax Sale Unit is not consistently entering subsequent payments in the DC Ledger. As noted in Finding 2, of the \$2.4 million of subsequent payments made by tax sale buyers during fiscal year 2007 and reflected in SOAR, the Tax Sale Unit only entered \$627,677 in the DC Ledger with \$1.8 million not entered.

Compounding this issue is the fact that there is no evidence of supervisory review. As a result of this lack of supervisory oversight, incorrect entries were not identified timely. Incorrect entries in the DC Ledger included entering penalty and interest in the principal field and listing a name other than the holder of the certificate of sale.

Page 11 of the *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, issued by the Government Accountability Office (GAO), states that "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

The employee assigned this responsibility in FY 2007 and before was not consistently entering subsequent payments in the DC Ledger. This individual is no longer an employee with the Tax Sale Unit. Additionally, there is no evidence that the Tax Sale Unit manager performed supervisory reviews of subsequent payments entered in the DC Ledger to ensure they are entered correctly and accurately.

Entering and accurately recording all components of a subsequent payment including the buyer's name, principal and penalty and interest (P&I), and date the subsequent payment was paid in the DC Ledger is paramount to the accurate processing of a refund when the property is redeemed.

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Recommendations

The Tax Sale Unit should develop and establish procedures to ensure:

1. Subsequent payments made by tax sale buyers are entered in the DC Ledger in a timely manner.
2. Evidence is maintained that supervisory reviews are performed to ensure that all components of a subsequent payment including the buyer's name, principal and penalty and interest (P&I), and date the subsequent payment was paid are entered correctly, accurately and in their respective fields.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

10. Overpayment of Interest on Refunds

We found that the Tax Sale Unit did not provide supporting documentation to support the redemption date used when processing refunds resulting in a potential overpayment of interest in excess of the amount due. For the purposes of our testing, we relied on the payment date noted on the real property assessment database payment history screen.

Our sample of 100 subsequent payment refunds (see Finding 8) and 77 redemption/cancellation refunds included interest totaling \$144,950.15 (see Finding 6). Of this amount, the Tax Sale Unit paid \$36,852.92 in excess of amounts due. In most instances, the interest was calculated from the date of the sale or subsequent payment through the date the refund was processed, which was generally months after the date the property was actually redeemed.

DC Code § 47-1354(b) states that "The purchaser shall receive a refund of the payment [of other taxes, interest, and penalties owing on the real property] upon redemption, with interest as required to be paid by the redeemer, only if the purchaser's certificate of sale is not void and if the purchaser provides proof satisfactory to the Mayor that the purchaser made the payment."

In discussions with the Tax Sale Unit staff, we were informed that it is the unit's practice to require the tax sale buyer to monitor a property for redemption and inform the tax sale unit when a property has been redeemed. However, DC Code 47§1361

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(d) states, "... the Mayor shall notify the purchaser that the real property has been redeemed. The purchaser shall surrender the certificate of sale and shall receive from the Mayor the amount to which the purchaser is entitled." Delays in the buyer informing the District of redemption could increase the amount of interest that is paid to the buyer.

The refunds in question were processed by employees no longer with the Tax Sale Unit; therefore, we are unable to determine the reasons the interest was not computed through the date of redemption, but rather through the date when refunds were actually processed.

Recommendations:

We recommend that the Tax Sale Unit manager:

1. determine the date that will be used for redemption and document this in a written procedure for dissemination to all staff.
2. require all refund vouchers include the supporting documentation to support the date used in the interest calculation.
3. perform supervisory reviews, at least on a random basis, to ensure that the interest is computed from the date of sale or subsequent payment to the redemption date.
4. consider, in consultation with General Counsel, whether modifying the DC Code to provide guidance on the date used to compute interest would be advisable.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

11. Forfeitures were not Processed Timely

We found that forfeitures were not processed timely for the FY 2007 Tax Sale. In the event that a successful bidder does not pay the full amount of the bid within five (5) days after the end of the tax sale, (the full amount is due by July 20, 2007). The District is required to assess a fee to the bidder forfeiting amounts paid. D.C. Code §47-1347 states that "A purchaser shall pay the full amount of his bid...within 5 business days after the last day of the sale. If the payment is not received within the time prescribed, 20% of the deposit of the defaulting purchaser shall be forfeited to the District."

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The forfeitures were processed per the Buyers with Forfeiture report generated on August 23, 2007, and not on July 23, 2007, the next business date after the period prescribed. Meanwhile, four payments were processed by the Tax Sale Unit on July 23, 2007. The failure to process amounts paid as forfeits immediately after the five (5) business days allowed resulted in \$8,316 (20% of \$41,580) in lost revenue to the District.

Recommendations:

We recommend the Tax Sale Unit comply with the law as outlined and process foreclosures in the time allotted.

Agency Response:

OTR officials concurred fully with our recommendation.

OIO Auditor Evaluation:

The OTR planned action is responsive to the issue we identified, and when fully implemented, should satisfy the intent of our recommendations.

12. Lack of a secured filing system

The tax sale unit lacks a secured filing system that adequately presents the history of the tax sale activities. For example, deposits are processed from registration forms in quadruplicate, when paid, the cashier's office retains the white copy, the registrant retains the pink copy, the Tax Sale unit retains the canary and gold copies. After the Office of Finance and Treasury posts the deposit in SOAR, the white copy is returned to the Tax sale Unit where it is matched with the canary and gold copies and maintained in an unsecured office. No copies, however, are used to reconcile with the tax sale system and SOAR. In addition, no copies are filed the buyers file.

Additionally, in our review of refunds, we found that the documentation submitted by the buyer was not filed with the voucher. In the majority of vouchers reviewed, the Tax Sale Unit could not provide evidence that the Tax Sale Certificate was surrendered or that the appropriate filing took place by the buyer. The information related to refunds were filed in no order and was not associated with the history of the property.

Recommendations:

We recommend the Tax Sale Unit manager take appropriate action to revitalize the filing system to ensure that all pertinent data related to a tax sale is kept secure and is easily accessible. The buyers report, registration document, certificate of sale and

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any other related information should be maintained in the file. If subsequent payments are made by the buyer that information should be maintained as well.

We also recommend for prior years that OTR consider obtaining temporary assistance to reorganize the files and locate any missing documentation.

Agency Response:

OTR officials concurred fully with our finding and recommendations

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

13. Failure to verify Foreclosure Action

The District does not have a process in place to verify that purchasers filed an action to foreclose the property owner's right of redemption within one year from the date of the Certificate of Sale, or that they pay the bill for tax deed within 30 days from the date the District sends the Bill for Tax Deed.

D.C. Code §47-1355(a) states that "a certificate of sale is void if [among others]: (1) An action to foreclose the right of redemption is not bought within one year from the date of the certificate of sale." D.C. §47-1355(b) states that "If a certificate shall become void:...(2) All monies paid for the real property by the purchaser shall be forfeited to the District and deposited by the Mayor in the General Fund of the District."

Tax Sale officials indicated that they have no knowledge of a process to ensure compliance with this requirement since purchasers are not required to submit evidence of when they filed an action to foreclose and the tax sale officials continue efforts to contact the purchaser after the purchaser has failed to pay the Bill for Tax Deed within the required 30 days.

Recommendations:

OIO recommends Senior OTR management in conjunction with the OCFO's General Counsel work with the District's Office of the Attorney General (OAG) to develop a process to verify purchasers' compliance with the requirement to initiate action, or to amend the current to provide detailed guidance on foreclosure compliance..

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Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

14. Failure to Enforce Deed Payment Requirements

When a successful buyer has been granted the right to a deed on the purchased property, the Tax Sale Unit sends the buyer a Deed Bill which lists all taxes and fees required to obtain the property. The buyer is given 30 days to pay all fees to obtain the deed. However, it has been noted in discussions with staff that buyers are not paying the deed bill in the required timeframe or taking any action to claim the property.

D.C. Code § 47-1382(f), requires the filing of a motion to vacate as void in the Superior Court by any party when the successful tax sale buyer fails to pay within the prescribed time. However, the Tax Sale Unit is not sending forfeit letters to buyers who do not pay the deed bill on time. As a result of this non-compliance on the Bill for Tax Deed requirement, the District is not retaining forfeited funds when the Bill for Tax Deed is not paid.

The Office of Tax and Revenue has not formally requested the OAG to file a motion to dismiss the case where the deed is not paid within the 30-day window. As a result, deeds are allowed to stay open an inordinate amount of time. In one instance, staff reported that a deed has been outstanding since 2005. The Office of the Attorney General in an e-mail sent to the tax sale staff dated July 26, 2007, stated OTR must request the OAG to file a motion to vacate the judgment pursuant to D.C. Code § 47-1382(f).

Failure to comply with this requirement renders the District noncompliant with the prescribed law. It also unnecessarily burdens subsequent purchasers who have to deal with prior purchasers who have failed to initiate action within the required timeframes but continue to hold valid Certificates of Sale.

Recommendations:

We recommend Senior Tax Sale Officials in conjunction with the Office of the Chief Financial Officer General Counsel meet to examine all Tax Sale Compliance

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requirements that need modification by law and to work with the Office of the Attorney General (OAG) to effect such changes, including motions of forfeiture.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

15. Tax Sale Participation Requirements are not Monitored

Tax Sale officials do not currently have a process in place to verify before the Tax Sale registration, whether the interested individuals (1) owe taxes to the District, and/or (2) is an employee prevented from participating in the tax sale.

The D.C. Code §47-1346(a)(5) states that “A potential purchaser, including a natural person or business entity, who is delinquent in payment of taxes to the District, may not bid on real property offered at a sale held under this chapter or otherwise acquire an interest in real property sold under this chapter.” This speaks only to real property taxes. Additionally, OTR Notice 2007-1 dated June 19, 2007, provides guidance regarding certain employees prevented from participating in the tax sale.

The tax sale unit is in non-compliance with established guidelines on this issue.

Recommendations:

We recommend that OTR match potential bidders against the District’s Human Resources database before the tax sale begins to ensure that prohibited employees are not attempting to bid on tax sale properties in violation of OTR Notice 2007-1.

Similarly, all bidders should be matched against the Integrated Tax System to determine if the bidder is delinquent for property taxes. The match should be performed before the commencement of the actual tax sale. If this cannot be performed expeditiously, we recommend the match occur immediately after the tax sale. If it is found that a successful bidder is delinquent, the sale should be voided and monies paid would be forfeited. The DC Code should be modified to allow for this forfeiture.

Agency Response:

OTR officials concurred fully with our finding and recommendations.

**FINAL REPORT ON
REVIEW OF THE OFFICE OF TAX AND REVENUE
TAX SALE PROGRAM**

OIO Auditor Evaluation:

The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

16. The Tax Sale Workbook Requires Enhancement.

Participants in the tax sale are provided a workbook to describe the tax sale process as a whole. In our review of the workbook we found that the following may be added to the workbook containing instructions to participants to enhance their understanding of the tax sale process (see **Table V** below).

The lack of access to critical information in referencing materials may lead to the tax sale buyers' failure to complete procedures required to obtain a deed or, in the case of redemption, collect all amounts due. Clear, concise and complete instructions to participants that can be used as a referencing tool can only increase the effectiveness of the tax sale process.

Recommendation

We recommend the Tax Sale Unit conduct a review of the workbook providing instructions to tax sale participants and include additional data to ensure that it includes all necessary information and is compliant with the applicable laws and regulations.

TABLE V: Workbook Enhancements

Section	Code Citation	Enhancement Required in Workbook
Recording the certificate of sale	§ 47-1350	"The purchaser may record the certificate of sale...in the Recorded of Deeds."
Void certificate of sale	§ 47-1355(a)	"a certificate of sale shall be void if [among others]: An action to foreclose the right of redemption is not brought within one year from the date of the certificate of sale; The purchaser owes taxes to the District." Subsection (b) states that "If a certificate of sale become void...(1) All monies paid for the real property by the purchaser shall be forfeited to the District."
Processing of a redemption refund.	9 DCMR § 316.6(a)	The DCMR states that "The tax sale purchaser shall submit the following documentation to begin the processing of a Redemption Refund...: (1) Certificate of Sale; and (2) Copy of praecipe that dismisses the foreclosure action and/or copy of the Certificate of Cancellation that cancels the Certificate of Sale; and (3) Receipts showing payments of subsequent taxes pursuant to 316.5; and (4) Proof of payment of Pre- Complaint Legal Expenses."

Source: Office of Integrity and Oversight

**FINAL REPORT ON
REVIEW OF THE OFFICE OF TAX AND REVENUE
TAX SALE PROGRAM**

Agency Response:

OTR officials concurred fully with our finding and recommendations.

OIO Auditor Evaluation:

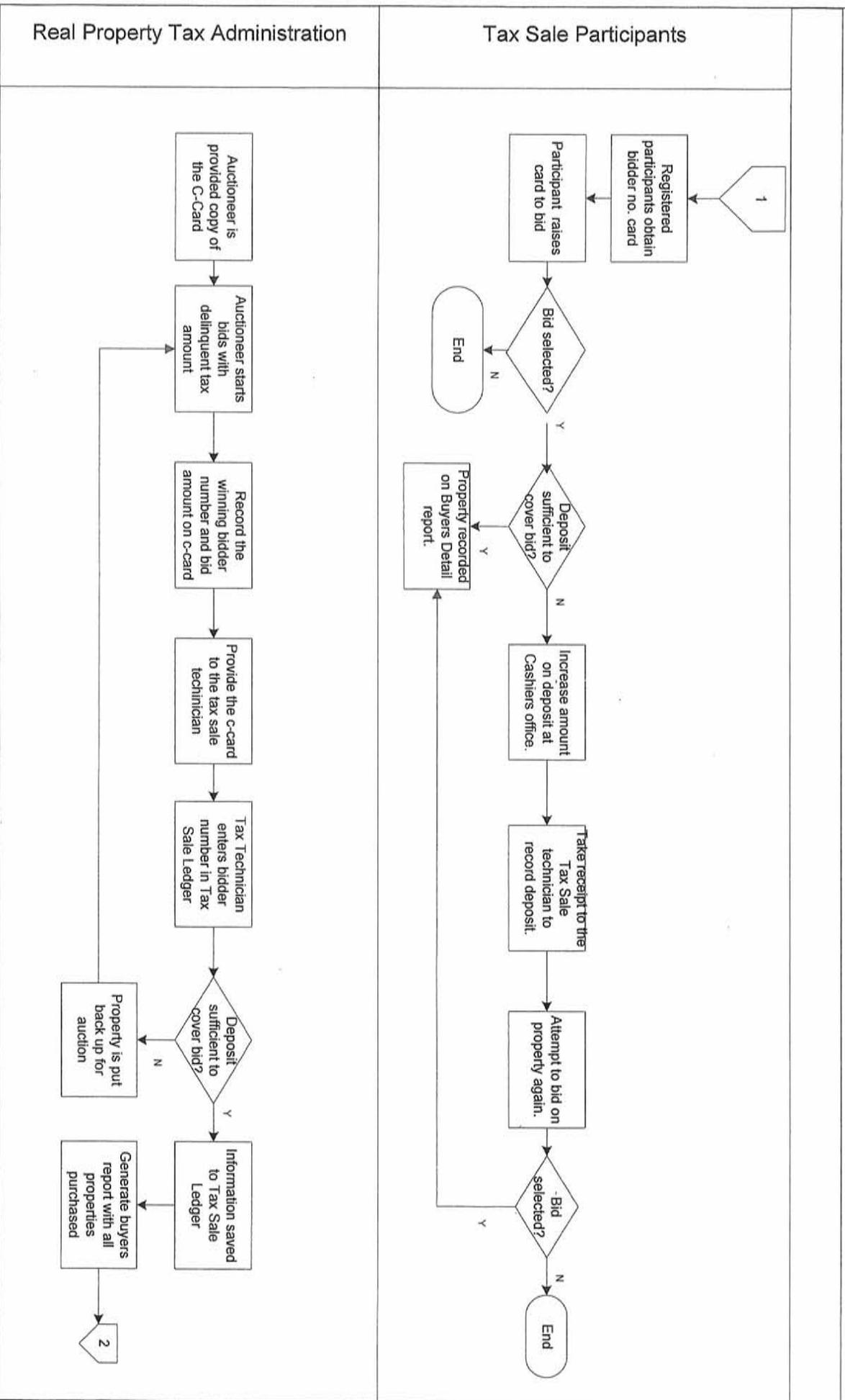
The OTR planned actions are responsive to the issues we identified, and when fully implemented, should satisfy the intent of our recommendations.

**FINAL REPORT ON
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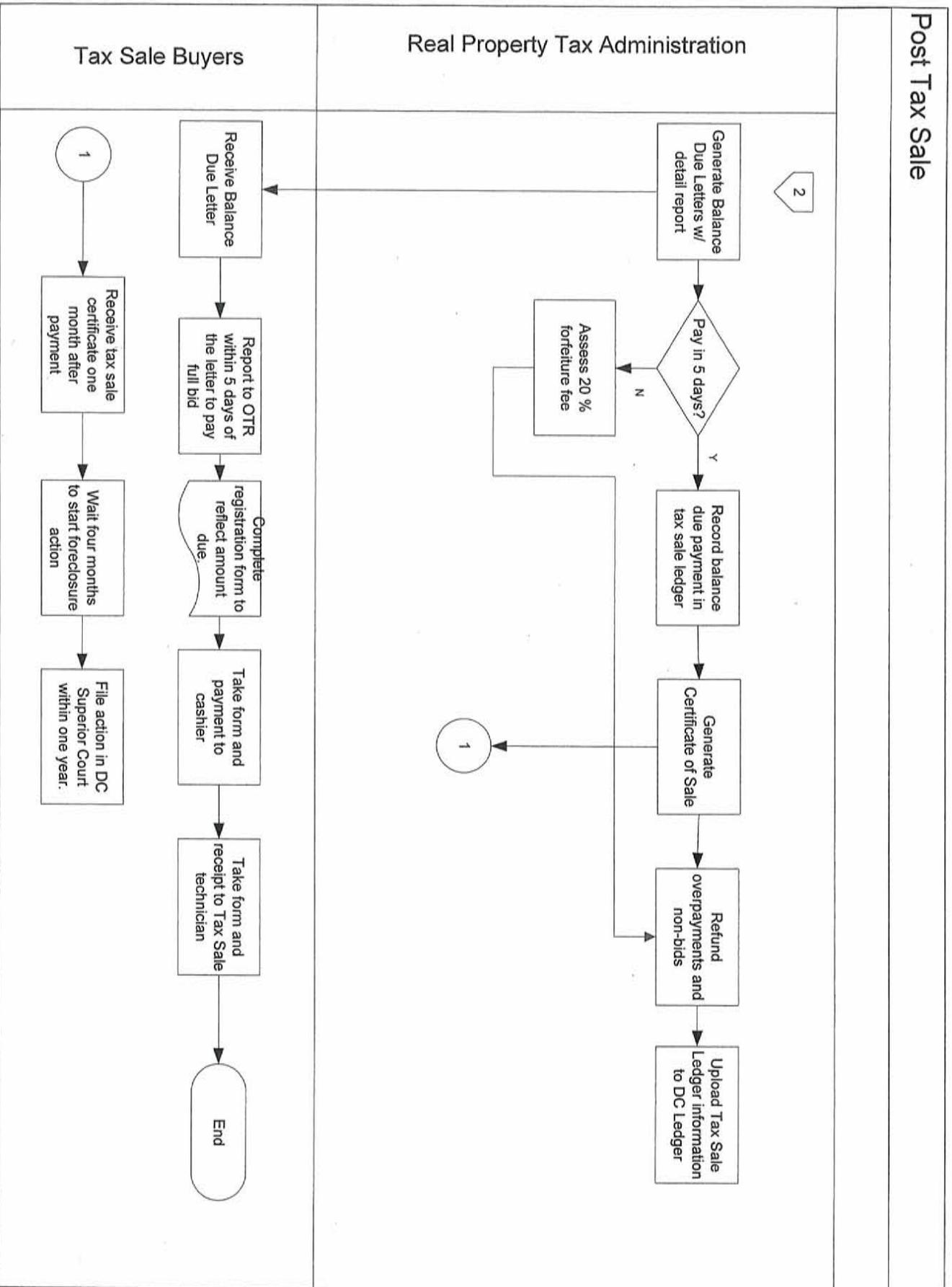
EXHIBITS

- Exhibit A:** Flowchart of the Tax Sale Process
- Exhibit B:** FY2007 Redemption Refunds to Tax Sale Buyers in Excess of the Certificate of Sale
- Exhibit C:** FY 2007 Refunds to Tax Sale Buyers Who Did Not Pay Subsequent Payments
- Exhibit D:** FY 2007 Duplicate Subsequent Payment Refunds

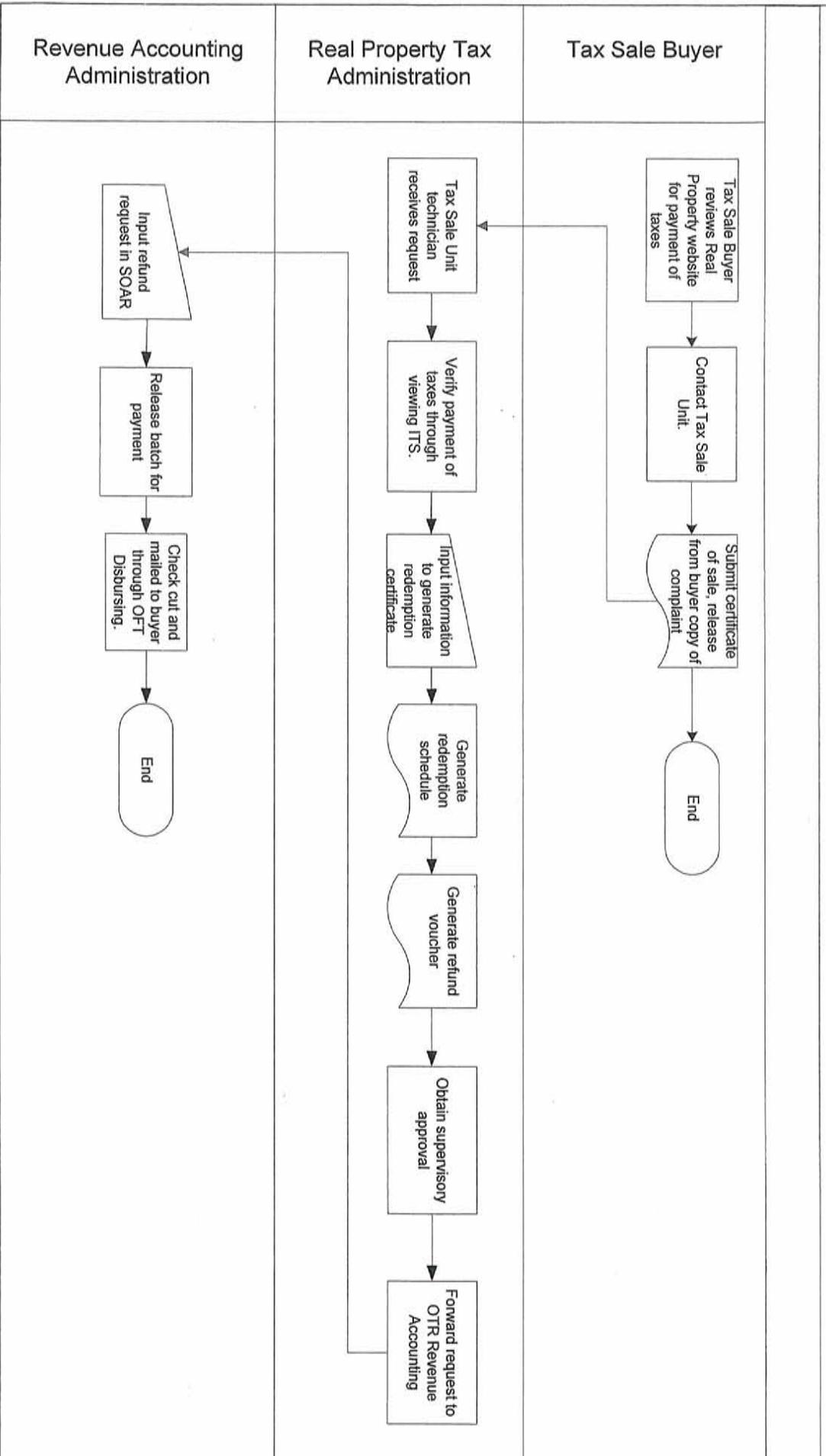
Tax Sale



Post Tax Sale



Tax Sale Refunds



**FINAL REPORT ON
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TAX SALE PROGRAM**

Exhibit B

FY 07 Redemption Refunds to Tax Sale Buyers in Excess of the Certificate of Sale

Square/Lot	Voucher No.	Payee	Refund Amount	Certificate of Sale Amount	Difference
5753 - 0073	VRD54001	Leah V. Durant	1,390.00	1000.00	390.00
0553 - 0085	VRD53517	Kyna Fernandez-Brooks	1,573.40	1,423.61	149.79
5204 - 0017	VRD52634	District Tax Services, LLC	7,359.61	Certificate of Sale not found in DC Ledger	7,359.61
0904 - 0844	VRD53674	John F. Donnelly	21,254.62	Certificate of Sale not found in DC Ledger	21,254.62
				Total	\$29,154.02

Source: SOAR Revenue Refund Vouchers Report, Certificate of Sale in the DC Ledger

**FINAL REPORT ON
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TAX SALE PROGRAM**

Exhibit C

**FY 2007 Refunds To Tax Sale Buyers
Who Did Not Pay Subsequent Payments**

Square – Lot	Subsequent Payment Refund		
	Voucher Number	Date	Amount Incorrectly Refunded (Principal and Interest)
5769 – 0866	VRD53601	4/19/07	\$11,824.31
1486 – 0046	VRD53613	4/18/07	1,634.80
Totals			\$13,459.11

Source: SOAR Revenue Refund Vouchers and Redemption Schedule of Subsequent Payments; and documentation evidencing subsequent payments including the Standard Deposit Tickets, SOAR Revenue/Receipts and the listing of properties included in the subsequent payment reflecting the principal, penalty, and interest paid.

**FINAL REPORT ON
REVIEW OF THE OFFICE OF TAX AND REVENUE
TAX SALE PROGRAM**

Exhibit D

FY 2007 Duplicate Subsequent Payment Refunds

Square - Lot	Subsequent Payment		Original Refund		Duplicate Refund		
	Amount Paid	Date	Voucher Number	Date	Voucher Number	Date	Total Refunded
2826 - 0042	\$741.51	11/30/03	VRD53738	5/30/07	VRD54014	8/27/07	\$1,230.90
2571 - 2126	\$173.52	1/13/06	VRD53988	8/27/07	VRD54017	8/27/07	214.56
4076 - 0821	\$910.52	1/13/06	VRD53988	8/27/07	VRD54017	8/27/07	1,125.87
Total							\$2,571.33

Source: SOAR Revenue Refund Vouchers and Redemption Schedule of Subsequent Payments; and documentation evidencing subsequent payments including the Standard Deposit Tickets, SOAR Revenue/Receipts and the listing of properties included in the subsequent payment reflecting the principal, penalty, and interest paid.

**FINAL REPORT ON
REVIEW OF THE OFFICE OF TAX AND REVENUE
TAX SALE PROGRAM**

APPENDIX I

OTR'S Management Response and Recommendations

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



Stephen M. Cordi
Deputy Chief Financial Officer

MEMORANDUM

TO: Robert G. Andary, Executive Director
Office of Integrity and Oversight

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

SUBJECT: Draft Report on the Review of the OTR Tax Sale Program
Report No. IA: OTR: 2803

DATE: October 2, 2008

A handwritten signature in blue ink, appearing to read 'Stephen M. Cordi', is written over the 'FROM' line of the memorandum.

This is in response to your memorandum dated July 25, 2008, regarding the internal control weaknesses within the Office of Tax and Revenue (OTR) Tax Sale Program. These internal control weaknesses came to your attention during the Office of Integrity and Oversight (OIO) audit of the Tax Sale Program. I have provided a summary of each internal control weakness identified by OIO and the corresponding response from the Office of Tax and Revenue, Real Property Tax Administration (RPTA) below.

1. Lack of a Comprehensive User Manual to Administer the Tax Sale Program.

The statement is accurate and OTR is working to prepare a user manual for implementation with the annual tax sale. While discussions with the Assessment Services Division, Revenue Accounting, and the Office of Integrity and Oversight Review Team have identified differences in processing in the past, those differences have been reduced significantly with the assistance of training sessions and documented materials, weekly meetings with the Tax Sale and Adjustment Units and new policies and procedures involving the signature of refunds, all of which have strengthened internal controls. Most recently, the Tax Sale Unit and the Adjustments Unit attended a training session that was sponsored by Revenue Accounting. This session was held on Thursday, August 14th. Additional training sessions will be scheduled.

2. No Reconciliation between the District's General Ledger (SOAR) and the DC Ledger.

During the week of November 26, 2007 the Real Property Tax Administration discussed with the Office of Integrity and Oversight the need to conduct a review of the 2007 Tax Sale to:

- verify the accuracy of deposits made by the hundreds of bidders at the 2007 Tax Sale.
- trace the monies received by the Cashier's Office at 941 N. Capitol in 2007 to the dollar amounts reported as 2007 Tax Sale deposits by the various buyers.
- trace the monies received by the Cashier's Office or Lockbox (Wachovia) paid in 2007 for subsequent year taxes by Tax Sale Buyers holding prior year Tax Certificates – 2002 – 2006 Tax Sales, and
- reconcile the amounts reflected as due to Tax Sale Buyers (unredeemed properties) with the balances in the Tax Sale account.

RPTA will continue its efforts to complete these reconciliations. RPTA hired a temporary employee who reported in May whose primary responsibilities were to reconcile the subsequent tax payments log book with the documents in the file folders for each Tax Sale Buyer, (Each such folder should have contained Form 8, Cashier's Receipt, copy of method of payment (check) and a list of the properties (Square, Suffix, and Lot) covered by the payment.), the dollar amounts reflected in SOAR as payments for subsequent taxes, and the dollar amounts in the Tax Sale Database for specific Buyers by Square, Suffix, and Lot. Many discrepancies were noted before this employee was diverted to assist the Tax Sale Unit with other priority assignments. Management has secured a contract with an accounting firm to secure three accountants to perform the aforementioned reconciliations. A full-time accountant will be hired to work in the Tax Sale Unit and this individual will have the responsibility of reconciling all transactions and activity on a weekly basis.

3. Inadequate systemic controls in the DC Ledger.

This statement is correct, and RPTA has implemented and will continue to implement changes to limit who has access to the Tax Sale Database, who can change records, and who can approve programming changes. System modifications and improvements to the stand alone Tax Sale Database have been implemented and additional changes will be identified and implemented to strengthen internal controls. RPTA has completed an audit of all user profiles in the Assessment Services Division and the "read only user class has been established.

RPTA is working with Information Systems Administration (ISA) to incorporate the stand alone Tax Sale Database into the Integrated Tax System (ITS). Several meetings have taken place and the completion target date is currently June 1, 2009.

4. The D.C. Ledger is not an effective management tool.

RPTA agrees with this finding, and members of the Tax Sale Unit are currently working with the OTR Information Systems Administration (ISA) to incorporate all Tax Sale functions into ITS.

5. Handwritten Redemption Refund Vouchers Issued.

Handwritten redemption refund vouchers are no longer being processed or issued by the Tax Sale Unit. The entire refund process is now automated. All vouchers that were previously handwritten will be individually analyzed to determine the status of the refund in the DC Ledger; during this reconciliation process all of these accounts will be locked to prevent any further activity. Additionally, a weekly reconciliation will be done through a data transfer from SOAR to DC Ledger of all tax sale vouchers that were paid in the prior week.

6. Redemption Refunds Were Not Properly Recorded or Supported.

Going forward, the Tax Sale Unit will be supporting all requests for redemption refunds with several documents. Redemption refunds will not be paid without the supporting documentation except in very limited circumstances. For example, the original Certificate of Sale generated in the DC Ledger affixed with the D.C. Seal will now be required. The only instance where the Certificate of Sale will be not required are those limited number of cases where the Superior Court retains the Certificate of Sale and will not return it to OTR. Other enhancements include refunds will not be processed without a release from the tax sale buyer and the date of redemption being displayed in ITS.

The Tax Sale Unit has now established procedures to document the receipt and application of subsequent payments and implemented procedures to verify entitlement to a subsequent payment refund including

- The Redemption Schedule of Subsequent Payments generated in the DC Ledger.
- Proof of subsequent payment including the Standard Deposit Ticket, cash register receipt, copy of cashier's check, SOAR Revenue/Receipt voucher, and listings of properties paid including the property identified on the refund voucher.
- Calculation of principal, penalty and interest due.

7. Subsequent Payment Refunds Processed Manually.

RPTA agrees that this was the previous practice; however, subsequent payment refunds are no longer being processed manually by the Tax Sale Unit. The entire refund process is now automated and is used exclusively to process any type of refund. All handwritten subsequent payment refund vouchers that were previously processed outside the DC Ledger will be analyzed and the accounts blocked from any further activity pending resolution of this review. As matter of policy going forward, only payment refund vouchers processed in DC Ledger will be eligible for refund. Additionally, a weekly reconciliation will be completed through a data download from SOAR to the DC Ledger of all tax sale vouchers paid in the prior week.

8. Lack of Supporting Documentation to Support Subsequent Payment Refunds.

The Tax Sale Unit has implemented updated procedures to require a greater variety of documentation to verify that the tax sale purchaser did, in fact, made a subsequent payment. The new procedures will serve as checks on the issuance of subsequent payment refunds. The following are the in-house resources and documentation currently being required prior to approval of a subsequent payment refund request

- Redemption Schedule of Subsequent Payments generated in the DC Ledger.
- Proof of the subsequent payment including the standard deposit ticket, cash register's receipt ticket, SOAR Revenue/Receipt voucher, copy of the cashier's check, and listings of properties paid including the property in question.
- Tax Sale Ledger reflecting the principal, penalty and interest due.

The date of redemption is currently entered in ITS, and the supervisor must verify, via signature approval, that all supporting documentation has been provided before transmittal of a Subsequent Payment Refund for payment to Revenue Accounting.

9. Lack of Review of Subsequent Payments Entered in the DC Ledger.

All subsequent payments are currently being entered into the DC Ledger. The supervisor will conduct periodic checks to ensure accuracy.

10. Overpayment of Interest on Refunds.

To address the finding of overpayment of interest, the Tax Sale Unit will, as a matter of policy, use the date of redemption when calculating the amount of

interest due for a tax sale refund. The current process is that the Tax Sale Unit notifies the buyer when a property has been redeemed and initiates the refund process. As part of that process the Tax Sale Unit notifies the buyer what supporting documentation will be required prior to approval and payment of the tax sale refund. The manager of the Tax Sale Unit will conduct periodic and random reviews of the interest calculations for approved refunds to ensure that interest is being calculated properly and the date of redemption is being used in the calculation.

11. Forfeitures were not processed timely.

Real Property Tax Administration generated and mailed the forfeiture letters for the 2007 Tax Sale on July 25, 2007, the first business day after the expiration of the time prescribed by Section 47-1347 of the District of Columbia Code. OIO indicates that RPTA accepted four payments on July 25, 2007, the same day the forfeiture letters were generated and mailed. RPTA did, in fact, process four payments on July 25, 2007, because in RPTA's determination this was the reasonable, fair, and equitable outcome for the buyers under the circumstances. RPTA is prepared and fully intends to generate and mail the forfeiture letters after the expiration of the time prescribed by the law for the 2008 Tax Sale.

12. Lack of a Secured Filing System.

The Tax Sale Unit now has a secured file cabinet and two more have been ordered. All tax sale documents will be maintained in a secure environment.

13. Failure to Verify Foreclosure Action

The Deputy Director of Real Property Tax Administration will initiate work sessions between the Tax Sale Unit, the Office of the Chief Financial Officer General Counsel, and the Office of the Attorney General (OAG) to develop a process to verify purchasers' compliance with the requirement to initiate action within the time proscribed by the law, or to amend the current process to provide detailed guidance to increase foreclosure compliance.

14. Failure to Enforce Deed Payment Requirements.

The letter of forfeiture has been revised to reflect current law and forwarded to the Office of the Attorney General and the Office of the Chief Financial Officer General Counsel for review and comment. Once the revised letter has been approved by counsel, staff will resume sending out the forfeiture letters and copying counsel. Additionally, a monthly report will be generated and provided to both management and counsel on the forfeiture letters sent out during the prior month. Counsel will resume filing the Motions to Vacate in Superior Court after the expiration of the time provided in the forfeiture letter.

15. Tax Sale Participation Requirements are not monitored.

OIO is recommending that Real Property Tax Administration pre-qualify everyone that registers to bid at tax sale. Qualifying an applicant includes: verifying that the applicant does not owe any real property taxes to the District of Columbia and is not barred from participating by virtue of his/her employment. The following describes the process RPTA will implement going forward to pre-qualify bidders:

- Effective, Friday, September 12, 2008, RPTA implemented the requirement for all bidders to file a FR500 as part of the tax sale registration process. As part of the current process Customer Service confirms through the Integrated Tax System (ITS) that bidders do not owe real property taxes.
- RPTA will be establishing a relationship with the District of Columbia Human Resources Department (DCHR) and develop a process with the Office of the Chief Financial Human Resource Department to verify the employment status of agencies including Mayoral appointees; District Government elected officials and staff; Office of the Chief Financial Officer staff and all subordinate agencies.

16. The Tax Sale Workbook Requires Enhancement.

The Tax Sale Unit sponsors four (4) Tax Sale Program Seminars every year which are held at least two weeks prior to the actual tax sale. These seminars are free and open to the public and cover every aspect of tax sale including presale requirements, the process during the sale itself and post sale practice and requirements. The Tax Sale Unit also provides, free of charge, a Tax Sale Workbook to everyone attending the seminars which includes all of the material covered at the seminars. The Tax Sale Workbook will be revised to incorporate the OIO recommendations.

cc: Glen Groff, Director of Operations
Richie McKeithen, Director, Real Property Tax Administration
Vladimir Jadrijevic, Chief Assessment Services Division