

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 16-1-14AT(a)

April 2017



OFFICE OF THE CHIEF FINANCIAL OFFICER:

INTERNAL CONTROLS OVER THE DISTRICT'S COMMERCIAL REAL PROPERTY ASSESSEMENT PROCESS



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation * Accountability *
Professionalism * Objectivity and Independence * Communication * Collaboration * Diversity *
Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 10, 2017

Jeffrey DeWitt
Chief Financial Officer
Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W. Suite 203
Washington, D.C. 20004

Dear Chief Financial Officer DeWitt:

Enclosed is the Independent Auditors' final report on *Internal Controls Over the District of Columbia Government's Commercial Real Property Assessment Process* that GKA, P.C. (GKA) submitted as part of the Office of the Inspector General's (OIG) contract for the Audit of the Commercial Real Property Assessment Process at the Office of Tax and Revenue (OIG Project No. 16-1-14AT(a)).

Overall, the Independent Auditors expressed an unmodified opinion and concluded that the District of Columbia Real Property Tax Administration maintained, in all material respects, effective internal control over the District's commercial real property assessment process. However, this report identifies 16 findings that Government Auditing Standards require be reported.

Accordingly, the Independent Auditors directed 16 findings and recommendations to the Office of Chief Financial Officer (OCFO) for corrective actions. On November 15, 2016, OCFO provided a response, which is included in the management response sections of this report following each recommendation. The OIG may elect to assess whether the conditions reflected in the Independent Auditors' findings have been remediated in future oversight work.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

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**Independent Accountant's Report on Internal Controls over the District of
Columbia Government's Commercial Real Property Assessment Process**

Independent Accountant's Report

To the Chief Financial Officer
District of Columbia Government

We have examined the operating effectiveness of the District of Columbia Real Property Tax Administration's internal control over the commercial real property assessments to prevent or detect and correct material misstatements on a timely basis, as of October 13, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Standards for Internal Control in the Federal Government established by the Comptroller General of the United States. The Real Property Tax Administration's management is responsible for maintaining the operating effectiveness of internal control over the commercial real property assessments. Our responsibility is to express an opinion on the operating effectiveness of the Real Property Tax Administration's internal control over the commercial real property assessments based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included obtaining an understanding of the internal control over the commercial real property assessments, testing, and evaluating the operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of its inherent limitations, the internal control over commercial real property assessments may not prevent or detect and correct misstatements in assessed values. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

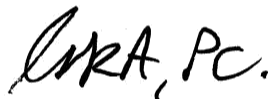
In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in the operating effectiveness of internal control that have a material effect on the commercial real property assessments. We are also required to obtain and report the responses of the management of the Real Property Tax Administration concerning the

findings, conclusions, and recommendations, as well as any planned corrective actions. Our examination did not disclose any material weaknesses or significant deficiencies in the operating effectiveness of internal control. However, it did disclose certain findings that are required to be reported under Government Auditing Standards. Those findings, along with management's responses, are described in the accompanying Schedule of Findings.

Management's responses have not been subjected to the procedures applied in the examination of the Real Property Tax Administration's internal control and, accordingly, we express no opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

In our opinion, the District of Columbia Real Property Tax Administration maintained, in all material respects, operating effectiveness of internal control over commercial real property assessments as of October 13, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by COSO and Standards for Internal Control in the Federal Government established by the Comptroller General of the United States.

This report is intended solely for the information and use of the District of Columbia Office of the Chief Financial Officer and the District of Columbia Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CRA, PC." The letters are cursive and somewhat stylized.

October 13, 2016

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Introduction

Background

Commercial real property assessment is a core process within the operations of the District of Columbia (the District) Government. Through this assessment process, the District determines the real property tax base for each of the approximately 40,000 commercial properties in the District. The Real Property Tax Administration (RPTA) is charged with assessing the values of these properties. Owing to logistical and resource constraints, RPTA employs mass appraisal techniques to assess the value of each commercial property for tax purposes. Commercial real property taxes are a significant source of revenues for the District. Consequently, the assessment process occupies a place of strategic importance to the District's Office of the Chief Financial Officer (OCFO) and the Office of Inspector General (OIG).

Consequently, the OIG engaged the services of GKA, PC (GKA) to assess the internal control over the District's commercial real property assessment process administered by RPTA. This engagement was executed in tandem with an evaluation of the District's commercial real property assessment functions, the results of which are reported under separate cover.

GKA conducted the engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. We performed the Assessment using "Internal Control — Integrated Framework," a criteria for internal controls issued by the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) and the Standards for Internal Control in the Federal Government (also called the Green Book).

Objectives, Scope, and Methodology

The core objective underlying our efforts was to determine whether RPTA's internal controls were appropriately designed and implemented to provide reasonable assurance that commercial real property assessments are fair and free from material error or fraud. Our evaluation was strictly focused on the commercial real property assessment process. We employed a top-down, risk based approach throughout the engagement. This approach required us to begin with an identification and assessment of the risks to fair and reliable assessments from either error or fraud (including changes in those risks) and then assessing whether RPTA implemented controls designed to effectively address and minimize those risks.

To achieve our objectives, we employed the following methodology in executing the engagement:

- obtained and documented an understanding of significant process flows;
- identified control activities and other COSO components;
- assessed the design of internal controls;
- performed tests of operating effectiveness of internal controls;
- identified and evaluated deficiencies; and
- communicated our findings to management.

We applied an appropriate mix of five distinct types of procedures (inquiries; observation; examination; analytical procedures; and re-performance) . These procedures were tailored to effectively address our assessment of the risks of material error or fraud within the assessment process.

Results

As a result of our examination, we expressed an unmodified opinion and concluded that the Districts of Columbia Real Property Tax Administration maintained, in all material respects, effective internal control over the District's commercial real property assessment process. However, this report identifies 16 findings that are required to be reported under Government Auditing Standards. The OCFO responded by agreeing with 12 recommendations, partially agreeing with 2 recommendations and disagreeing with 2 recommendations.

SCHEDULE OF FINDINGS

1 - Conduct periodic assessments of internal control risks.

Condition

We noted that regular or periodic self -assessments of internal control risks underlying the commercial real property assessment process are not conducted by the Real Property Tax Administration (RPTA).

Criteria

The principles supporting COSO's internal control framework's risk assessment component requires an organization to (a) identify risks to the achievement of its objectives across the entity and analyze risks as a basis for determining how the risks should be managed; and (b) identify and assess changes that could significantly impact the system of internal control.

Cause

RPTA management appear not to be sufficiently knowledgeable about internal control risk assessments.

Effect

Not assessing internal control risks periodically will impair RPTA's efforts to timely and effectively manage risks that may pose substantial threats to the achievement of its objectives.

Recommendation

We recommend that RPTA embark on a comprehensive and iterative process of identifying and analyzing risks (including internal controls risks) to achieving its objectives pertaining to the commercial real property assessment process. This process should include the following:

- specifying suitable objectives;
- risk identification; and
- risk analysis as a basis for determining how to manage risks. This must include the following:
 - assessing the likelihood or frequency of the risk occurring;
 - assessing the significance of the risk; and
 - evaluating actions that should be undertaken to manage the risk.

The assessment should include:

- assessing risk at RPTA and the commercial assessment unit levels;
- analyzing internal and external factors and their impact on achievement of objectives;
- estimating the potential significance of identified risks and determining how to respond to them; and
- involving appropriate levels of management.

SCHEDULE OF FINDINGS

Management Response

The OCFO agrees with this finding. To date, OCFO management has determined that the most significant risks in the overall commercial real property process relate to real property refunds. As a result, the OCFO established extensive internal controls relating to real property refunds, and regularly assesses the validity and effectiveness of these controls. Although OCFO continues to believe that the risk in the commercial real property assessment process is relatively low, as a result of the above finding, the OCFO has initiated an effort to identify additional controls for coverage of the commercial real property assessment process. These controls will be included in the FY 2017 internal control test program (IC). The OCFO's IC program employs a three phased approach to ensuring the effective operation and design of internal controls. First, on a semi-annual basis, the Office of the Chief Risk Officer (OCRO) reviews the control environment with process owners through the risk control matrices. OCRO looks to identify any new or obsolete controls and improvements needed in the process for each division. Second, quarterly controls are evaluated by control testers within the division and corrective action plans (CAP) developed. Third, OCRO reviews and monitors these CAPs for remediation and the Office of Integrity and Oversight performs a detailed validation through sampling of controls evaluated during the period. The Commercial Real Property Assessment Division will now be included in each phase of the IC program and tested quarterly.

SCHEDULE OF FINDINGS

2 - Design and implement effective internal control monitoring activities.

Condition

We noted that RPTA does not assess the quality of internal controls over the commercial real property assessment process over time.

Criteria

The principles underlying the Monitoring component of COSO's internal control framework requires an organization to (a) select, develop and perform ongoing and/or separate evaluations to determine whether the components of internal control are present and functioning; and (b) evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management.

Cause

RPTA management appear not to be sufficiently knowledgeable about internal control monitoring. Although these activities are reportedly being undertaken at the Agency (OTR) level, this has not penetrated to the RPTA level.

Effect

Not monitoring internal controls over time can preclude RPTA from determining whether the internal controls continue to be relevant and are able to address new risks. This can also result in organizational inefficiencies and an increase in costs associated with public reporting on internal control, because problems are not identified and addressed in a proactive manner. Monitoring activities can also reveal evidence or symptoms of fraud. When monitoring is appropriately designed and implemented, organizations benefit because they are more likely to identify and correct internal control problems on a timely basis, produce more accurate and reliable information for use in decision-making, prepare accurate and timely reports, and be in a position to provide periodic certifications or assertions on the effectiveness of internal control.

Recommendation

We recommend that RPTA design and implement effective ongoing evaluations, separate evaluations, or a combination of the two. In determining whether separate evaluations are needed, RPTA management should consider the nature of changes occurring within the organization and their associated risks and the competence and experience of personnel implementing controls, as well as the results of ongoing monitoring. Ultimately, management must use judgement in deciding how often separate evaluations are necessary to have reasonable assurance that the system of internal control is operating effectively. The greater the effectiveness of ongoing monitoring, the lesser is the need for separate evaluations. We consider a combination of separate and ongoing monitoring evaluations to be optimal to ensure that controls remain effective over time.

SCHEDULE OF FINDINGS

Management Response

The OCFO agrees with this finding with the exception of the CAMA system. The OCFO will strengthen internal controls by expanding monitoring activities to Commercial Real Property Assessment division. The OCFO has initiated a comprehensive review of additional controls to validate coverage of the Commercial Real Property Assessment process. Controls have been identified and will be included in the FY 2017 internal control test program. Testing of controls will occur quarterly.

Internal controls are inherent in the CAMA system and are governed by the Office of the Chief Information Officer and the CAMA vendor. Additionally, the CAFR, IT Audit of controls and overall internal control assessment are performed annually.

Examples of the CAMA system internal controls include:

- a. Segregation of duties controls have been established to ensure, that anyone proposing (P) a change to assessment, cannot be a Reviewer(R) or acceptor (A) of the change. A (P) (R) (A) report is reviewed by the Chief Assessor/RPTA Director every month and is signed off via email.
- b. Access to CAMA system is based on the OCFO Active directory (AD) for onboarding and off boarding users. Our onboarding and off boarding processes, password change rules, Complexity of password rules are all documented and follows the same standards as for the Active Directory (AD). Because we use AD, access to CAMA is removed as soon as the network (AD) access is removed, irrespective of the role each individual's role.
- c. Access to CAMA system is role based and is based on the AD group he or she is assigned. There is a process and procedure to add and remove users to AD group/CAMA role.
- d. The annual valuation review process that subjects all property to review utilizing system generated reports including the:
 - Apartment, Investment Condominium, Retail and Office Income Edits (which includes reviews for bad data, Value source not on Income, No income data, Overrides and Excess Land Review)
 - Reassessment Status
 - Percent Change Detail Analysis
 - Economic Income Summary Report

These reports require the appraiser and supervisor review and approval.

- e. All assessments are subject to an established three-level appeal process. This is an established procedure that is widely circulated and known to all assessors.
- f. Assessors, Maps and Title supervisors follow documented assessment roll correction procedures.
- g. All access to database administration features, and the underlying table data is restricted from all CAMA users, including the CAMA manager.
- h. A daily reconciliation process, and a written escalation procedure to handle errors exists for transfer of data from CAMA to Billing System and from Billing System to CAMA.
- i. We have SQL server auditing and built in Application auditing turned on to capture the information regarding change to data.
- j. SQL server auditing log reports are shared with the Chief Assessor and the RPTA Director every month.

SCHEDULE OF FINDINGS

GKA's Response

We have reviewed management's response and our finding remains as noted above.

SCHEDULE OF FINDINGS

3 - Conduct periodic fraud risk assessments.

Condition

We noted that no periodic fraud risk assessments of the commercial real property assessment process are performed.

Criteria

COSO's risk assessment principle states: "The entity considers the potential for fraud in assessing risks to the achievement of reporting objectives."

Cause

There are no written policies and procedures addressing this issue.

Effect

This condition enhances the risk of fraud occurring within the assessment process.

Recommendation

We recommend that RPTA conduct periodic comprehensive fraud risk assessments to identify various ways in which fraud and misconduct can occur. It must assess specific areas where fraud might exist and the likelihood of its occurrence and potential impact. This should include considering how employees might circumvent or override controls intended to prevent or detect fraud as part of the identification and evaluation of entity-wide fraud controls. A consideration of the incentives, pressures, and opportunities to commit fraud and attitudes or rationalizations to justify the fraudulent actions should also be undertaken as part of this process.

Management Response

The OCFO disagrees with this finding. A risk assessment was conducted in 2008-2009 by Deloitte Consulting. Further, as part of the annual CAFR audit process, a risk assessment is performed of the entire District that evaluates internal controls and fraud risks.

Additionally, the OCFO, in support of several strategic objectives (#2 – Create a Culture of Continuous Improvement, #3 - Improve Transparency and Quality of Information, and #4 - Effectively Manage Risk and Prevent Fraud), has engaged Grant Thornton (GT) to work with the Office of the Chief Risk Officer (OCRO) to complete a comprehensive risk assessment agency-wide, currently in Phase 1 (focusing on OFT, OFOS, and OTR-Real Property Administration). This assessment focuses on fraud risk. The OCRO will review the analysis and the current internal control inventory from a fraud risk perspective to ensure that any gaps, should they exist, are addressed.

GKA's Response

We have reviewed management's response and our finding remains as noted above.

SCHEDULE OF FINDINGS

4 - Establish and execute a formal policy to perform periodic reconciliations between the GIS cadaster and the tax roll within the Computer Assisted Mass Appraisal System (CAMA) to ensure completeness of the tax roll. Perform these reconciliations periodically and preserve supporting records to enable verification of this key control activity.

Condition

We could not verify whether the tax roll within CAMA contained all commercial properties in the District. In our attempt to verify whether RPTA “mass-appraised” all commercial properties in the District, we requested, but did not receive, documentation in support of RPTA’s claim that periodic reconciliations between the GIS cadaster (which reveals all commercial properties in the District) and the tax roll within CAMA are undertaken to ensure the tax roll’s accuracy and completeness. A close inspection of RPTA’s policies did not reveal any formal requirement to undertake a reconciliation between the GIS cadaster and the tax roll in CAMA. RPTA management claim to perform this reconciliation, but there is no evidence that they do.

Cause

RPTA’s management perceived no benefit in preserving this evidence with respect to the periodic reconciliation between the GIS cadaster and the tax roll within CAMA.

Criteria

District of Columbia Municipal Regulations Title 9 Section 305.1 states that: “All real property shall be assessed on an annual basis.”

Effect

Not performing periodic reconciliations between the GIS cadaster and CAMA can result in some commercial properties not being mass-appraised for taxation. Not preserving documentation of the reconciliation will preclude an independent verification of this key control activity.

Recommendation

We recommend that RPTA formulate a written policy that requires a periodic reconciliation between the GIS Cadaster and CAMA’s tax roll as a mechanism to ensure the accuracy and completeness of the tax roll. These reconciliations should be reviewed periodically by a supervisor and evidence of that review should be maintained. Documentation supporting these reconciliations should be maintained to meet future audit data needs.

Management Response

The OCFO agrees with this finding. This activity has regularly been conducted by the assessment division as a matter of quality control, but has not been routinely documented. To ensure the continued performance of the activity, OTR has recently updated its Financial Policies and Procedures to document the process to conduct periodic reconciliation of the parcels contained in the CAMA and Geographic Information Systems. The procedure will continue to ensure all properties in the District are accounted for in these two critical systems. Revisions to the Policies & Procedures Manual are located on page 83,

SCHEDULE OF FINDINGS

under Computer Assisted Mass Appraisal (CAMA) Active Lot and Cadastral Map (Assessor's Map) Reconciliation. The policy requires at least two reconciliations per year and a supervisory review of the findings. OTR began its first review under the written procedure on November 2, 2016, and at the conclusion of the reconciliation and the review thereof, records will be maintained as outlined in the procedure.

OTR began its first review under the written procedure on November 2, 2016, and at the conclusion of the reconciliation and the review thereof, records will be maintained as outlined in the procedure. The first reconciliation will be concluded by December 15, 2016.

SCHEDULE OF FINDINGS

5 - Update and augment written operating policies and procedures for review and approval procedures within the roll correction process.

Condition

Although we found evidence of review and approval procedures within the key area of roll correction, these procedures are not addressed in the Policies and Procedures Manual updated October 4, 2015.

Criteria

The COSO framework's control activities component embraces the principle that organizations should deploy control activities through policies that establish what is expected and procedures that put those policies into action.

Cause

This was the result of a failure to update the policies and procedures manual timely.

Effect

Control activities that are not backed by the force of policy will engender misunderstandings, cause errors in application, attract uneven application and cease to exist over time.

Recommendation

We recommend that review and approval procedures within the roll correction process be incorporated within RPTA's standard operating policies and procedures.

Management Response

The OCFO has modified its Financial Policies and Procedures manual to include information regarding the review of, and approval of, various roll corrections utilized within RPTA. The additional language reflects the approval authority of various reviewers and their level of authority based on valuation changes noted on the roll correction form. This modification to the manual memorializes the levels of approval as they currently appear on the form itself. Revisions to the Policies & Procedures Manual are located on page 97.

SCHEDULE OF FINDINGS

6 - Perform reviews of the CAMA Specialist's scrubbing of permit data sourced from DCRA; reconcile permit data input into CAMA with the data sourced from DCRA.

Condition

We noted that permit data received from DCRA is scrubbed by a CAMA Specialist prior to inputting the data into CAMA. During the data scrub, the CAMA Specialist amends or removes data that, in the Specialist's judgment, is unlikely to materially impact the pertinent commercial properties' assessed values. Data that is judgmentally discerned to be incorrect, incomplete, improperly formatted, or duplicated is also cleansed. We found no evidence that a Supervisor or another appraiser reviewed the scrubbing of data prior to incorporating the cleansed data into CAMA. Also, data input into CAMA is not reconciled with data received from DCRA.

Criteria

District of Columbia Municipal Regulations Title 9 Section 307.1 states that: "In determining the assessed value of property the Deputy Chief Financial Officer shall take into account all available information which may have a bearing on the market value of the real property..."

Cause

A requirement for an independent review of the "scrubbing" of permit data from outside sources is not an established policy of RPTA.

Effect

The failure to independently review the "scrubbing" of this data can result in assessments being executed on the basis of incomplete permit data and data that may have been manipulated by error or design.

Recommendation

We recommend that:

- A Supervisor or another appraiser perform a review of the scrubbed data to ensure that only data that doesn't meet the criteria established by the code is omitted and that no unjustifiable manipulation of data occurred. Evidence of this review should be maintained.
- RPTA periodically perform a reconciliation of data input into CAMA with data sourced from DCRA.

Management Response

The OCFO agrees with this finding. OTR met with representatives from DCRA's Permit Center on Tuesday, November 8, 2016 to discuss ways in which DCRA may provide more useful data related to building permits, permits made final and certificates of occupancy as a monthly deliverable to OTR, thus eliminating the OTR CAMA specialist's need to scrub raw permit files. DCRA's file would be directly uploaded to OTR's CAMA system for review by the appraisal staff. OTR would also save these file transmissions for a reasonable period of time, to ensure integrity of the process.

SCHEDULE OF FINDINGS

Expected Completion: This process will be in place on or before December 31, 2016.

SCHEDULE OF FINDINGS

7 - Articulate specific and effective procedures for appraisers to undertake to determine whether sales transactions were executed at arms-length and maintain documentation supporting the performance of such procedures.

Condition

In our review of 45 sales transactions, we saw no documentary evidence that verification procedures performed included determining whether the sales transaction occurred at arms-length. In addition, RPTA's policies and procedures contained no guidelines on how an appraiser can determine whether a sale occurred at arms-length.

Criteria

DCMR Title 9 Section 307.3 (a) states that: "Sales which represent arm's length transactions between buyer and seller shall be used in analyzing market values. Sales which do not represent arm's length transactions shall either be adjusted for differences or disregarded."

Cause

Written policies and procedures do not address this issue.

Effect

The absence of clearly articulated procedures that are effective in determining whether sales transactions were engaged in at arms-length between two disinterested parties can result in erroneously incorporating such transactions in mass appraisal in violation of the provisions of the Code. This in turn can result in assessments that are not reflective of market value.

Recommendations

We recommend that RPTA establish an effective mechanism to determine whether the sales transactions occurred at arms-length. Evidence of this evaluation should be retained in related files for an appropriate period of time.

Management Response

The OCFO agrees with this finding insofar as enhancing its procedures to further define and detail whether a sales transaction occurred at arms-length. As part of the sales verification process, the appraisers note which sources were used to confirm the sales price of a property. Additionally, the appraiser reviews the nature of the sale and discerns whether a sale is arms-length based on their professional knowledge and training. This process is well documented in and carried out pursuant to the sales verification procedures detailed in the policies and procedures manual. The sale's arms-length determination is reviewed by the Supervisor, CAMA Specialist and when necessary the Chief Appraiser, Deputy Chief Appraiser and CAMA Manager.

Next Steps: OTR has enhanced its Financial Policies and Procedures manual to include a section about what constitutes arms-length sales, more specifically which conditions would preclude a property from being arms-length. In addition to the revision of the document, the appraisal staff was recently

SCHEDULE OF FINDINGS

refreshed in their training on the topic. Revisions to the Policies & Procedures Manual are located on page 110 under Sales Verification Process.

SCHEDULE OF FINDINGS

8 - Ensure that at least 2 additional individuals, including the immediate supervisor of the CAMA Manager, acquire an advanced level of proficiency in using the CAMA software application.

Condition

We noted that RPTA relies exclusively on its CAMA Manager to execute all of its complex functions in relation to the CAMA software application. This individual is RPTA's sole repository of advanced skills in operating and using the software application. All other persons who interact with the software, including the CAMA Manager's immediate supervisor, demonstrate only a basic level of proficiency with respect to the software. They may, therefore, be unable to execute these complex functions in the absence of the CAMA Manager.

Criteria

COSO's control environment component requires an organization to demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives.

Cause

Cross-training of personnel in this area is not an established policy of RPTA.

Effect

RPTA's ability to seamlessly function would be severely impaired in the absence of the CAMA Manager.

Recommendation

We recommend that RPTA train at least two (2) other individuals, including the CAMA Manager's immediate supervisor, to achieve an advanced level of proficiency in the navigation and use of the software application. This will ensure effective supervision of the CAMA Manager's work and also preserve continuity of key functions at all times.

Management Response

The OCFO agrees with this finding. Although the processes executed by the CAMA Manager are well documented, the CAMA Specialist began hands-on training for the processes and procedures of the CAMA system on November 2, 2016. The CAMA Manager will also continue to ensure that his supervisor is familiar with all the activities involved in the proficient use of the CAMA system. Additionally, the vendor, VSGI, and the OCIO are available to provide support for the proper use of the CAMA software application.

SCHEDULE OF FINDINGS

9 - Conduct random inspections of exempt properties to validate their exempt status. Perform random inspections of mixed-use properties to verify reported mixed-use ratios.

Condition

We noted that RPTA does not verify the continuing validity of a property's exempt status, nor does it verify owner-reported mixed use ratios.

Criteria

- COSO internal control framework's control activities component enshrines the principle that an organization should select and develop control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- By law and regulation:
 - In order for properties to be exempt from taxation they must be owned and operated for tax-exempt activities (DC Code §47-1002).
 - Mixed use ratios determine commercial real property taxes assessed on properties that are used for dual purposes (District of Columbia Municipal Regulations 9-327 and 9-328).

Cause

There are no written policies and procedures which address the need to continually validate a property's qualification for tax exempt status or owner-reported mixed use ratios.

Effect

The failure to inspect exempt properties as well as mixed-use properties (to verify mixed-use ratios) can result in loss of tax revenues to the District.

Recommendation

We recommend that RPTA periodically verify the status of exempt properties and mixed-use properties ratios.

Management Response

The OCFO agrees with this finding insofar as it pertains to properties already exempt and receiving the mixed-use classification. OTR stresses that the Exemption Unit already conducts field inspections of all new exemption applications, where an existing exempt property's characteristics or uses may have changed as indicated on the annual FP-161 filing, or where a property has been referred to audit from an appraiser, Exemption Specialist, taxpayer or other sources. OCFO further stresses that initial mixed-use applications and irreconcilable reported changes in mixed-use applications are field inspected for accuracy as well.

Next Steps: OTR has initiated random audit programs to include having the Exemption Specialist periodically select a sample of current year FP-161's (Annual Use Reports) and Mixed-Use applications and conduct field reviews to ensure the property continues to qualify for the relevant program. In

SCHEDULE OF FINDINGS

conjunction with OTR's random audits, the OCRO will include both audit programs as part of its quarterly testing to confirm OTR's compliance. Revisions to the Policies & Procedures Manual are located on page 137, under Random Inspections of Mixed Use Properties, and on page 161, under Random Inspections of Exempt Properties.

SCHEDULE OF FINDINGS

10 - Develop and document a security plan for CAMA.

Condition

We noted that OCFO has not established a comprehensive security management program to comply with FISMA, NIST 800-12 and FISCAM A.1.1.1 requirements. The security management program in place presently is not comprehensive, current or adequately documented.

Criteria

FISMA, NIST 800-12 and FISCAM A.1.1.1 require agencies to develop and document a comprehensive application security plan. System-specific security policy includes two management processes that derive security components: (a) security objectives; and (b) operational rules from security goals. Other areas that should be addressed are rules for system usage and consequences of noncompliance. Typical policies would cover any area where system policy diverges from organizational policy or from normal practice within the organization.

Cause

Internal controls over compliance with FISCAM, NIST, and FISMA requirements are either not appropriately designed or implemented.

Effect

The failure to properly document a security plan for CAMA will increase its vulnerabilities against external and internal threats; and compromise the integrity, confidentiality, and availability of data and the application. It also enhances the risk of improperly and inadequately performing and documenting system security assessments.

Recommendation

We recommend OCFO develop and document in a single document a security plan for CAMA that includes:

- Application identification and description;
- Application risk level;
- Application owner;
- Identification of person responsible for the security of the application;
- Application interconnections/information sharing;
- Description of all of the controls in place or planned, including how controls are implemented or planned to be implemented as well as special considerations;
- Approach and procedures regarding security design and upgrade;
- Process for developing security roles;
- General security administration policies, including ongoing security role maintenance and development;
- Identification of sensitive transactions in each functional module;
- Identification of high risk segregation of duty cases;

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- Roles and responsibilities of the security organization supporting the system with adequate consideration given to segregation of duties;
- Security testing procedures;
- Coordination with entity-wide security policies;
- Procedures for emergency access to the production system, including access to update programs in production, direct updates to the database, and modification of the system change option;
- System parameter settings compliant with entity-wide agency policies; and
- Access control procedures regarding the use of system delivered critical user ID, etc.

Management Response

OCFO only agrees to the documentation aspect of this finding. We agree to develop a single System Security Plan (SSP) document that will show all the steps that have been taken and exist currently in different documents. We expect to complete a single document, called System Security Plan (SSP), by January 2017.

OCFO does not agree that it has not established a Comprehensive Security Management Program.

OCFO security management program is comprehensive and current.

OCFO has already performed the following:

- Classified the system based on FIPS Publication 199 objectives (confidentiality, integrity and availability)
- Established Recovery Point Objective and Recovery Time Objective for the new DR site that we expect to be operational by June 2017;
- Application owner and IT ownership has been established;
- Application Security is role-based and uses the enterprise-wide active directory, ensuring the Password complexity and Expiration requirements are all following the OCFO-wide policy;
- Application auditing and Database audits have been turned on;
- All system parameter settings are compliant with enterprise-wide agency policies;
- CAMA system does not use any “delivered user ids” within the application or database
- Procedures are established and documented for emergency access to the production system and direct updates to the database
- All connections to CAMA system are secure

GKA's Response

We have reviewed management's response and our finding remains as noted above.

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11 - Document security assessment for CAMA.

Condition

In our efforts to validate CAMA's most recent security assessment to determine whether or not the security assessment is up-to-date, appropriately documented, approved by management, and supported by testing, we noted that the OCFO did not adequately document its security assessment to comply with FISCAM, FISMA and NIST requirements or implement a Plan of Action or identify milestones to resolve any weaknesses or threats to system security.

Criteria

NIST Special Publication 800-53/A and FISCAM AS-1.2.1 requires agencies to:

- Perform security risk assessments for applications and supporting systems on a periodic basis or whenever applications or supporting systems significantly change.
- Document and maintain risk assessments and validation, and related management approvals and incorporate them into an application security plan.

Cause

Internal controls over compliance with FISCAM, NIST and FISMA requirements are either not appropriately designed or implemented.

Effect

The failure to conform to the requirements of FISMA, NIST and FISCAM may result in weak protections to confidentiality and integrity (including non-repudiation and authenticity); and poor availability of and access to data and systems.

Recommendation

We recommend that the OCFO appropriately document RPTA's CAMA security assessment in accordance with the requirements of NIST 800-53/A and FISCAM AS-1.2.1. The assessment should be approved by management and supported by rigorous testing.

Management Response

OCFO agrees with this finding. In conjunction with our Modernized Integrated Tax systems (MITS) implementation's System Test and Evaluation effort for Rollout 3 (Scheduled for Fall 2017), an internal or external party will be tasked to perform a security assessment, in line with NIST 800-53 requirements and Federal information systems control audit manual (FISCAM) methodology. We expect to complete a Security Assessment by November 2017.

SCHEDULE OF FINDINGS

12 - Develop and implement a comprehensive contingency plan for CAMA.

Condition

We noted that OCFO does not have an adequate and properly documented contingency plan for CAMA that meets NIST 800-34 requirements. This includes a policy statement and methodology; conducting a business impact analysis (BIA); identifying preventive controls; creating contingency strategies; planning testing, conducting training and exercises; and contingency plan maintenance, etc.

Criteria

NIST 800-34 requires RPTA to develop and document a contingency plan that includes:

- Developing a contingency planning policy statement. A formal policy provides the authority and guidance necessary to develop an effective contingency plan.
- Periodically conducting a BIA. The BIA helps identify and prioritize information systems and components critical to supporting the organization's mission/business functions.
- Identifying preventive controls. Measures taken to reduce the effects of system disruptions can increase system availability and reduce contingency life cycle costs.
- Creating contingency strategies. Thorough recovery strategies ensure that the system may be recovered quickly and effectively following a disruption.
- Developing an information system contingency plan. The contingency plan should contain detailed guidance and procedures for restoring a damaged system unique to the system's security impact level and recovery requirements.
- Ensuring plan testing, training, and exercises. Testing validates recovery capabilities, whereas training prepares recovery personnel for plan activation and exercising the plan identifies planning gaps; combined, the activities improve plan effectiveness and overall organization preparedness.
- Ensuring plan maintenance. The plan should be a living document that is updated regularly to remain current with system enhancements and organizational changes

Cause

Internal controls over compliance with FISCAM, NIST, and FISMA requirements are either not appropriately designed or implemented.

Effect

The failure to develop and implement an adequate and effective CAMA contingency plan will expose RPTA to the risk of a breach of CAMA data confidentiality and result in a disruption to business continuity and loss of access to key data. Specific risks include potential violation of authorized restrictions on information access and disclosure, including restrictions imposed on access to personal privacy and proprietary information, introduction of improper information, and modification or destruction of data, etc.

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Recommendation

We recommend that OCFO develop and implement a comprehensive contingency plan for CAMA in accordance with the requirements of NIST 800-34.

Management Response

OCFO agrees to develop a properly documented Contingency plan for CAMA that meets NIST 800-34 requirements. OCFO has completed a disaster recovery exercise, where we restored the backup to a different server and verified the functionality and data exists as it did in the production system. OCFO is in the process of establishing a new Disaster Recovery site by June 2017, as part of an agency-wide disaster recovery upgrade to improve availability, and further improve on the Recovery time objective (RTO) and Recovery Point Objective (RPO).

As to the stated effects articulated in this finding, the OCFO strongly objects and disagrees to the effects related to confidentiality, information access and disclosure in this finding. We believe that GKA is in error as these would not be the effects related to the condition of this finding.

GKA's Response

We have reviewed management's response and our finding remains as noted above.

SCHEDULE OF FINDINGS

13 - Verify income and expenditure data reported by property owners; conduct independent audits of income and expense statements annually on a sample basis.

Condition

We noted that RPTA predominantly uses the Income Method to assessing commercial properties. This approach entails the use of income and expenditure data reported by taxpayers. We saw no evidence that RPTA verifies this data by auditing pertinent accounting records and source documents from the taxpayer even though such verification may be necessary in some cases.

Criteria

- Title 9 DCMR Rule 334.1—“In addition to the collection of the information set forth in § 333.4, the Deputy Chief Financial Officer may, in his or her discretion, by written notice to the affected taxpayer, require the taxpayer to provide records and documents that will assist in determining or substantiating the income and economic benefits of the income-producing property.”
- Uniform Standards of Professional Appraisal Practice Standards Rule 1-4: “In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results.”

Cause

There are no formal policies and procedures addressing this issue.

Effect

The failure to verify income and expense data reported by taxpayers may yield assessments that lack credibility. This in turn may subject the District to lawsuits and penalties if the assessments are too high or result in a loss of revenues if they are too low.

Recommendation

We recommend that:

- RPTA verify the Income and Expense forms submitted by taxpayers by obtaining taxpayer accounting records and source documentation. Evidence of such verification should be retained for an appropriate period of time; and
- Independent audits of Income and Expense statements be conducted annually on a sample basis.

Management Response

This finding is inaccurate and we strongly disagree. OTR already consistently examines the income & expense statements submitted by taxpayers. The income and expense forms are used in conjunction with the valuation of commercial property and as such are reviewed by the commercial appraisal staff. If the staff identifies concerns, we address the issue with the owner and/or filer of the forms; however, the regulations do not authorize OTR to verify or examine information by obtaining the taxpayer’s accounting records and source documentation, as suggested in the recommendation of this finding. DC Municipal Code 9-332.3 states that when a form has not been accurately completed, OTR shall inform

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the taxpayer, in writing, that the form must be accurately completed and resubmitted to OTR. This is the recourse available to an appraiser suspecting a form has not been accurately or completely filed.

GKA's Response

We have reviewed management's response and our finding remains as noted above.

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14 - Reengineer income and expense reporting and analysis to ensure data is available timely for assessments to factor in current data as opposed to data that is two years old and potentially not reflective of market realities.

Condition

We noted that RPTA utilizes income and expense data that is two (2) years old in its assessments for any given year. This data may not be reflective of current market realities. For example, tax year 2017 assessments are based on tax year 2014 income and expense data.

Criteria

COSO's internal control framework requires that the organization obtain or generate and use relevant, quality information to support the functioning of internal control.

Cause

The income and expense data reporting process is riddled with inefficiencies that delay the receipt and analysis of data. In addition, property owners do not file timely in many cases.

Effect

The failure to utilize current income and expense data for assessments can generate assessments that are skewed and legally indefensible.

Recommendation

We recommend that RPTA streamline the income and expense reporting and analysis process to ensure current assessments are based on prior year income and expense data.

Management Response

The OCFO agrees with this finding; however, this issue has been previously identified by the OIG in the September 2012 performance report conducted by Almay Gloudemans, Jacobs & Denne. Legislative action is necessary to modify the law establishing the filing calendar and the dates for commercial revaluation notices. Even with these modifications that would allow OTR to use the most current income and expense data, the data would be one year old (as opposed to the current two-year old data). Until the DC Council approves such legislative changes, OTR will continue to time adjust the income and expense data, making it more suitable for valuation purposes.

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15 - Ensure the Appeals and Litigation Unit is adequately staffed.

Condition

We noted that RPTA's Appeals and Litigation Unit has been served two "show cause" orders by a D.C. Superior Court Judge due to a significant backlog in RPTA filing settlement memoranda with respect to mediated commercial real property appeals.

Criteria

COSO's internal control framework requires that organizations demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives in a timely fashion.

Cause

The Appeals and Litigations Unit is inadequately staffed.

Effect

The current workload at the Appeals and Litigations Unit can result in low employee morale and voluntary employee separations. This can also result in the incurrence of significant interest on monies subject to refund or subject the Agency to court-imposed penalties.

Recommendation

We recommend that RPTA staff the Appeals and Litigation Unit adequately to:

- (a) Ease the current workload; and
- (b) Expedite the filing of outstanding settlement memoranda.

Management Response

The OCFO agrees that under current law and the current court process, there is a backlog of cases scheduled to proceed to Superior Court after RPTAC decisions. OCFO believes that the creation of a tax court, similar to those of other jurisdictions, would more effectively address this issue. Absent this reform, staff augmentation, in the form of additional appraisal staff to work through and dispense with the existing backlog of cases before the Superior Court and to better manage the day-to-day activity of the unit such as mediations, depositions, expert report writing and the like.

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16 - Enact appeals reform or achieve better alignment between RPTA's staffing and its core mission.

Condition

We noted that there is an inherent risk in the assessment process, spawned by a clear misalignment between RPTA's current personnel-related budget and level of staffing, and RPTA's core mission of conducting effective assessments. This misalignment is largely driven by structural challenges represented by the District's appeals legislation. According to RPTA's personnel, 65% or more of an appraiser's time on average is expended on defending assessments in the face of appeals filed by property owners. Consequently, merely 35% or less of an appraiser's time, on average, is devoted to an appraiser's core duty of assessing commercial properties and conducting commercial property inspections.

Criteria

According to the COSO internal control framework, an organization must obtain or generate and use relevant, quality information to support the functioning of internal control. Implementing this principle requires adequate resources and a supportive regulatory framework.

Cause

The District's appeals legislation in its present form offers commercial property tax payers the incentive to file appeals because they do not incur a penalty. These appeals range from the frivolous and unsustainable, which subject RPTA to significant transaction and opportunity costs, to those that have resulted in corrected assessments. Some appellants file appeals year after year. This legislation has provided significant incentives to the real property tax appeals industry, which is largely driven by contingent fees on appeal outcomes.

Effect

This condition substantially reduces the amount of time an appraiser can devote to gathering, examining and analyzing data, and conducting accurate assessments. Additionally, it encourages appeals, limiting the time available for performing assessments.

Recommendation

We recommend that RPTA achieve a better alignment between its level of staffing and its core mission, or engage in negotiations with the District Council to engineer a change to existing appeals legislation designed to deter frivolous appeals.

Management Response

The OCFO agrees with the need to enact appeals reform. We disagree with the notion that realignment of staffing level would address the systemic problem that exists; i.e. the appeals process needs to be amended to provide for a path to timely judicial decisions. The OCFO concurs with the recommendation to engage the Council, in conjunction with the Attorney General's office and the Superior Court, to engineer a solution to this problem.

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GKA's Response

We have reviewed management's response and our finding remains as noted above.