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

Jeffrey S. DeWitt
Chief Financial Officer

May 1, 2017

The Honorable Jack Evans
Chairman
Committee on Finance & Revenue
Council of the District of Columbia
The John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 106
Washington, DC 20004

Dear Chairman Evans:

This is in response to your letter dated April 19, 2017, regarding questions for the Office of the Chief Financial Officer's annual budget hearing. Responses to the questions posed in your letter are attached for your review.

If you require additional information, please feel free to contact me.

Sincerely,

Jeffrey S. DeWitt

Jeffrey S. DeWitt

Attachments

Fiscal Year 2018 Budget and Financial Plan Questions
Office of the Chief Financial Officer

1. Please provide the Agency's budget worksheets for FY 2016, FY 2017, and FY 2018, including the following information:
   - For FY 2016, please include the amount approved and amount actually spent.
   - For FY 2017, please include the amount approved, the revised proposal, and the spending to date.
   - For FY 2018, please include the amount requested. Please also discuss the increase in FTE's requested.

   Please provide this information by object class/comptroller source group. Please include the number of FTEs. ***Please subtract the figures for the program "Budget Development and Execution," since that function is under the jurisdiction of the Committee of the Whole.***

   RESPONSE

   See **Attachments 1a, 1b** and **1c**. For FY 2017, the current approved budget and spending to date is shown. There is no revised proposal at this time.

2. Please list all program enhancements, technical adjustments, and reductions included within the FY 2018 Agency budgets (excluding Budget Development and Execution). Please break down these costs by program. In addition, please provide a narrative description and rationale for each, along with associated dollar amounts and FTEs (if applicable). In your response please explain with a breakdown of funds and an explanation of the additional $538,463 in the Finance and Treasury program to "cover certain banking fees and other contractual costs".

   RESPONSE

   See Attachment 2 which details proposed program enhancements, technical adjustments and reductions included in the OCFO FY 2018 budget including the Current Services Funding Level adjustments. Budget changes to Local, Special Purpose Revenue (SPR), Intra-District and Federal Fund Types are shown in separate sections with affected program areas noted. As shown on the attached, the SPR increase of $538,463 in the Finance and Treasury (OFT) program includes a $500,000 increase to cover the projected costs of the new lockbox contract; the balance of $38,463 is the net impact of other adjustments to reflect projected costs in OFT SPR funds.

3. Your budget reflects an increase of 23 Full-Time Equivalents. Please provide a complete breakdown of the funding source, hiring timeline and reasoning for the increased staffing for the following Division programs and Activities:

   Agency Financial Operations (100F) + 3.0
   Tax Administration (5000) + 7.0
   Finance and Treasury (7000) +14.0

Additionally, please provide an estimate of how much additional revenue will be generated by these positions each year in the Fiscal Year 2018 budget and financial plan. Will these positions pay for themselves? Please justify your answer.

RESPONSE

See **Attachment 3.**

4. Please explain the "OTR compliance initiatives to confirm homestead exemptions are property claimed and to identify bank accounts of delinquent taxpayers collection" initiatives described in the Chief Financial Officer's April 4th, 2017 transmittal letter. In your explanation please include expected and anticipated actions to be taken, costs associated (and funding source for the costs), timeline for implementation, and projected revenue expected for each year in the Fiscal Year 2018 budget and financial plan.

RESPONSE

Homestead Deduction Match

The Real Property Tax Administration (RPTA) oversees the management of the Homestead Program, which grants an exemption to the first $67,500 of assessed value to homeowners whose primary residence is in the District of Columbia. Many taxpayers own properties in other jurisdictions, and claim local "homestead" exemptions on those properties as well. Because a taxpayer claiming a homestead exemption in another jurisdiction cannot, by definition, have a primary residence in the District, individuals making such claims should have their District Homestead exemption revoked. The Homestead exemption also confers a cap on assessment increases that is not granted to other properties.

Currently, RPTA uses various means to identify individuals who may not maintain primary residence in the District by matching Income Tax filing records, Driver's License and other registrations as indications of domicile. Confirmation mailings are then sent to those property owners without a match to see if the Homestead exemption is valid.

OTR is seeking other ways to identify potentially ineligible properties by matching with homestead filing records in other jurisdictions, using publicly available data and the analytic services of a vendor. In order to work the list of potentially ineligible taxpayers identified through this process, RPTA is requesting 3 FTEs (2 Program Specialists and 1 Accounting Technician) to notify taxpayers, handle calls and correspondence, process any documentation that proves District domicile, and revoke the Homestead on any properties for which the exemption cannot be substantiated. These properties will also need to have their annual property taxes recalculated for the three years prior, removing the cap on assessment. The cost of these staff years is approximately $240,000. Vendor services would be paid on a contingency basis. We project revenue of approximately $10 million from this effort in FY 2018, $2.5M in FY 2019, and $2.6M in the remaining years of the plan.

Tax Liability Bank Attachment

The Compliance Administration pursues collections of delinquent accounts using various methods, including levying of bank accounts and other assets. Without information on which banks may or may not hold an account for a delinquent taxpayer, the process of sending out levies is not optimal. OTR has contracted with a vendor to pinpoint the banking information of delinquent taxpayers, to increase the effectiveness of the levy process.

The criterion for matching is an Individual or Business debt, with some exceptions, that exceeds $10,000.

For maximum productivity, staffing will be needed to timely file levies on these accounts. Other jurisdictions running similar programs have experienced intensive labor requirements in keeping up with the levy filing and follow up. Compliance is requesting 4 FTEs (2 Revenue Officers and 2 Tax Examiners) to establish a dedicated group to:

- Analyze information received from the vendor to determine which accounts would be best for levy action
- Prepare levies
- Handle correspondence
- Handle phone calls from both the banks and the taxpayers subject to levy.

The information Compliance will receive from the vendor will allow this unit to locate the most yielding accounts to maximize collection efforts. Additional labor costs will be saved by eliminating levies served to incorrect banks. With proper staffing, we project revenue from this initiative in excess of $5.7 million in FY 2018, and $3.5M in the subsequent years of the financial plan period.

5. Please provide a list of all projects for which your agency currently has capital funds available, as well as a list of projects for which capitals funds are requested in FY 2018 or in the financial plan. Please include in this list a description of each project, the amount of capital funds available for each project, a status report on each project, and planned remaining spending on the project. If capital funds have been reduced for a given project, please state the effect of the reduction. In your response, please include an explanation of the additional $600,000 “for Operating Impact of Capital to account for costs related to the CFOSolve Financial Application”.

RESPONSE

The following summarizes the currently active OCFO capital projects:

TO0-CIM01-CAPITAL ASSET REPLACEMENT SCHEDULING SYSTEM
As part of the FY 2015 Budget Support Act, the Council included a requirement for the OCFO to develop a Replacement Schedule for Capital Assets and report on it in October of each year. The CFO’s Strategic Plan includes an initiative to develop a

long-range capital financing plan for the District. In order to accomplish the goals of the BSA and the Strategic Plan, it was critical to first create a centralized database of all District-owned assets and their respective condition, so that a calculation of the costs to maintain or replace those assets can be performed. To determine the total cost for the District to maintain these assets, and better understand the total capital needs, a comprehensive review of all governmental agencies' capital and asset maintenance requirements was completed with each project scored and ranked to ensure that the highest priority projects were funded. These needs were analyzed in the new Capital Asset Replacement Scheduling System, or CARSS. This allowed for a more comprehensive view of the District's capital asset health and allowed the total capital needs of the District to be better quantified.

We have expanded the use of CARSS to better quantify the District's proposed new projects and ongoing capital maintenance needs, at more granular level of detail, by individual asset type. The analysis, as reported in the "Long-Range Capital Financial Plan Report", which was delivered to the Council and Mayor in October 2016, is supported by a new mechanism that helps the District optimize available financing, through a combination of debt and various pay-as-you-go financing scenarios, and then quantifies the impact on individual projects and the time frame for their implementation.

Modeling for all current and proposed capital projects (573 projects) was completed last year, and the model was used to help formulate the Mayor's proposed FY 2018-FY 2023 CIP plan. The project is now being expanded to include all agency assets, not just those with current capital projects. In addition to the $1.3 million currently available for the project, an additional $606,000 is being requested for FY 2018 to complete the project, increasing the original allotment of $2.4 million to just over $3 million.

AT0-BF304-DCSRP-SOAR MODERNIZATION

The project will replace the District's current financial accounting and reporting system and budget formulation and execution system. The OCFO will soon resume preparations for replacing SOAR with a modern financial system by identifying and securing sufficient subject matter expert resources for the project while maintaining ongoing operations. We will work on the requirements gathering phase of the project beginning in early FY 2018, with the goal of soliciting bids in FY 2018 from vendors to begin implementation of the system selected in FY 2019.

See **Attachment 5** for additional information on the need for and benefits of a new financial system.

Capital funding in the amount of $9.7 million is currently available to begin the requirements phase of the project as well as the contract award process in FY 2018 with an additional $91 million in funding proposed in the FY 2018 – FY 2023 plan.

AT0-CSP08-INTEGRATED TAX SYSTEM MODERNIZATION

The MITS (Modernized Integrated Tax System) project replaces and modernizes the District's Integrated Tax System (ITS) for business and individual taxes. Most of the project cost is for the contract to design, develop and implement the integrated system for the processing and billing of the various income and other tax types managed by the OCFO Office of Tax and Revenue (OTR). The contract was awarded to FAST Enterprises in the fourth quarter of FY 2014 with the project kickoff on October 6, 2014.

The project is on schedule with successful implementation of the first two rollouts: Individual income tax, fiduciary tax and estate tax were implemented in October 2015, and corporate and unincorporated franchise taxes, employer withholding tax were implemented in October 2016. We also launched the new online taxpayer access portal, MyTax.DC.gov, which allows taxpayers to fully manage their accounts online: the scheduling of payments is available now, and the scheduling of payment plans will be available beginning May 15.

Rollout 3 is scheduled for implementation in October 2017. Rollout 3 includes all the various iterations of sales and use tax including sales and use, consumer use, special events and specialized sales tax. To date, we have established the baseline project schedule, project management plan, requirements gap analysis matrix and preliminary implementation specifications. The configuration of the base solution for Rollout 3 is underway. The master test plan, the employee training plan, conversion plan, and the design of notices, reports and required interfaces with internal and external stakeholders for Rollout 3 is also underway.

Rollout 4 is scheduled for implementation in October 2018. All of the various remaining taxes and fees such as excise taxes, ballpark fee, etc., will be part of this rollout.

Current available funding for the project totals $20.4 million with $6 million previously authorized for FY 2018. An additional $6.9 million is requested in FY 2019 for the real property component of the new system. This funding will expand the MITS project to include real property tax billing, will leverage the system's customer relationship management (CRM) capabilities and provide residents with one platform to pay their taxes and to check the status of their payments. In other words, the funding allows the District to modernize its current real property billing processes and procedures. The modernized property tax billing system must support applying tax rates, approving certain types of exemptions (known as tax relief or deductions), generating bill notices, creating billing/adjustments, managing special programs, applying various credits such as the Homestead credit and holding tax sales. There are four classes of tax rates that require configuration of a number of special rules that can be applied based upon: total value, applications for special consideration, and properties having multiple tax rates (properties used for both residential and commercial purposes). The system must support payments by various methods and provide for collection capabilities. The system must be fully integrated with MITS taking full advantage of all the capabilities and reporting available.

AT0-CSP-10-IT SYSTEMS UPGRADE

This project is to provide the necessary budget for supporting the OCFO's central IT system infrastructure; the composite hardware, software, network resources and services required for the existence, operation and management of an enterprise IT environment. The project covers capital investments associated with new systems enhancements, establishment of a disaster recovery environment, and life-cycle replacement of OCFO network appliances and servers.

One current initiative continues the work of establishing a fully functional telephone system and a single CRM system for the OTR. This will improve customer service to DC taxpayers as well an improve efficiency of operations across all customer-facing OCFO business units. Phase 1, completed in the summer of 2016, implemented the modernized telephone system for OTR in conjunction with the roll-out of phase 1 of the MITS. Phase 2, featuring a fully integrated CRM, is in the planning stage with a target completion date in the fall of 2018.

Current available funding totals $619,596. A total of $3.5 million is in the FY 2018 – FY 2023 plan.

AT0-BF303-MODERNIZED BUDGET ANALYTICS
This project will provide the District government with an improved process for formulating complex budgets (operating, revenue, and capital) and the peripheral data associated with budgets (wards, classifications of projects, on-line publishing, etc.) The initiative will build the business analytics platform by providing a consolidated view of budget and financial information within the different business units and agencies. This will allow the government and its residents to track the District's budget health through enhanced data visualizations, charts, and datasets. The project will also create and publish dashboards on agency and project budgets, revenue forecasts and collections, performance against budget, capital project management and other business performance metrics.

No capital funding is being requested for FY 2018, although $9.7 million is in the FY 2018 – FY 2023 plan. This project will begin in FY 2019.

AT0-BF211C-CFO$OLVE
CFO$OLVE implemented an array of financial reporting tools for both financial and non-financial users. CFO$olve applications, reports and dashboards have been developed and delivered to a number of different agencies including the Office of Finance and Resource Management (OFRM), Department of General Services (DGS), along with the OCFO Office of Finance and Treasury (OFT) and OCFO Economic Development and Finance (EDF). A new set of CFO$olve applications (ABC Automated Budget Chapters and Financial Plan) was implemented for the OCFO Office of Budget and Planning. CFO$olve initiatives in the pipeline for the current year include: CFO$olve infrastructure and application upgrade for Cognos 11, provide new data feeds to multiple Open Gov transparency sites, and other capital and operating budget enhancements.

Current available funding for the project totals $2.6 million.

With CFO$olve now fully operational and in use by various agencies, updates and revisions to existing reports are regularly needed along with periodic system maintenance. These costs represent the ongoing operating impact of the capital project or improvement. To ensure that CFO$olve remains a reliable and relevant reporting system in the midst of the District's dynamic environment, an additional $600,000 was included in the FY 2018 CSFL to fund the annual contractual expense to maintain the system.

6. Will the proposed Fiscal Year 2018 budget allow the Agency to meet all statutory mandates? If not, please explain.

RESPONSE

Yes, the FY 2018 budget will allow the OCFO to meet all statutory mandates.

7. What is the outlook for the next quarterly revenue estimate?

RESPONSE

The economic outlook for the District's economy remains unchanged from the one underlying the February revenue forecast. It assumes continued, modest growth in jobs and income, similar to that which has occurred over the past year. This outlook includes:

- Job growth increases of 1.0 percent in FY 2017 and 0.6 percent in FY 2018, down from the 1.4 percent rate of increase in FY 2016. Federal employment is expected to decline in FY 2018 and for the remainder of the period of the financial plan.
- Population growth continues at a slower pace (16,400—2.4 percent—over the two fiscal years 2017 and 2018); resident employment grows by 2.8 percent over the same period as the unemployment rate falls.
- DC Personal Income growth increases 5.0 percent in both FY 2017 and FY 2018, slightly above the 4.7 percent estimated for FY 2016.

Federal government fiscal policy uncertainty remains a primary concern. A federal budget has not yet been adopted for all of FY 2017, and sequestration constraints on federal spending will return in FY 2018 unless Congress takes action to change them. In addition, the upcoming decisions on budget and debt ceiling resolutions add to current economic uncertainty.

Developments outside of the local economy also pose risks to the District's economy and finances. These include the possibility of slower national economic growth, volatility in the stock market, increases in interest rates, and turbulence in the credit markets as the Federal Reserve phases in interest rate increases. Possible disruptions arising from uncertainties around the world and potential national security events are other sources of risks to the District's economy.

8. Are there any items or requests regarding agency budget, legislation or otherwise, that you made which were not included in the budget submission and would be helpful if

they were included? If so, please provide in priority order and explain the need. Are there items that are included that should be considered for removal? If so, please explain.

RESPONSE

The Mayor's Office is finalizing an errata letter that will present corrections or amendments to the Fiscal Year 2018 Budget Request. There were no items included in the budget submission for the OCFO that should be considered for removal.

9. Please confirm that the language in the following subtitles of the Fiscal Year 2018 Budget Support Act of 2017 is sufficient to perform the actions intended. If it is your opinion that the language is insufficient or potentially causes an unintended consequence, then please provide suggested edits.
   - Title II, Subtitle E- St. Elizabeth's East Campus Redevelopment Fund
   - Title III, Subtitle E - Emergency and Non-Emergency Number Telephone Calling Systems Amendment-**(Added at the request of Ruth Werner on 4/25)**
   - Title VII, Subtitle C – Our Lady of Perpetual Help Real Property Tax Forgiveness
   - Title VII, Subtitle D – International Spy Museum Tax Abatement
   - Title VII, Subtitle F – Supermarket Tax Incentives Clarification
   - Title VIII, Subtitle C - Anti-Deficiency Amendment for Capital Projects

   Please also discuss any language in other Budget Support Act subtitles or in the Budget Request Act that you believe may need to be modified, if applicable.

RESPONSE

- **Title II, Subtitle E—St. Elizabeth's East Campus Redevelopment Fund**

The language referring to the property is incomplete because it only refers to lot numbers, but omits the square and suffix. The current complete description for tax purposes are Lots 815 and 819 in Square 5868, Suffix S. The bill also describes the property in terms of zoning parcels, which are not used for tax purposes.

We understand that the bill intends to include in the abatement only the property that will be occupied by a new Entertainment and Sports Arena Site ("ESA") and that this area will occupy current lot 815 and a portion of current lot 819, as well as land that is not part of either lot. The Deputy Mayor for Economic Development has filed a lot split application with the Real Property Tax Administration ("RPTA") to create a new lot whose boundaries will correspond to the ESA use. RPTA advises that the lot will be designated as Lot 838 in Square 5868, Suffix S. This change is intended to be effective in the second half of Tax Year 2017. The Committee should consider revising the description of the ESA Site in the bill to include reference to the pending revised lot number for the property. Incorporating the revised Lot and Square numbers would provide clarity for tax administration purposes going forward.

- **Title III, Subtitle E - Emergency and Non-Emergency Number Telephone Calling Systems Amendment; Title VII, Subtitle C – Our Lady of Perpetual Help Real Property Tax Forgiveness; Title VII, Subtitle D – International Spy Museum Tax Abatement; Title VII, Subtitle F – Supermarket Tax Incentives Clarification**

The language is sufficient to perform the actions intended for Subtitles (C), (D), and (F) in Title VII, and Subtitle E of Title III.

- **Title VIII, Subtitle C—Anti-Deficiency Amendment for Capital Projects**

A technical change should be made to Sec. 8022(a) to correspond with the punctuation and phraseology in the D.C. Official Code, as noted below.

Current language:

(a) Section 47-355.02(8) is amended by striking the phrase “regardless of percentage,” and inserting the phrase “regardless of percentage, or, for capital projects, 5% of the project’s budget or $1 million, regardless of the percentage.”

Suggested language:

(a) Section 47-355.02(8) is amended by striking the phrase “regardless of the percentage; or” and inserting the phrase “regardless of the percentage, or, for capital projects, 5% of the project’s budget or $ 1 million, regardless of the percentage; or”.

10. Please provide a list of special purpose revenue funds, including balances and plans in FY 2017 to use these funds. In your opinion, are there any funds that should be eliminated or consolidated? If so, please identify and explain why.

RESPONSE

See **Attachment 10** which lists the OCFO Special Purpose Revenue funds, including FY 18 budgeted amounts, current fund balances, and plans for use. We do not recommend that any of these funds be eliminated or consolidated at this time.

11. What types of tax payments do you currently permit via credit card, and what fees, if any, are charged by the OCFO? What tax payments do you plan to offer via credit card in the future? Please provide a timeline for implementation, noting necessary steps for this to happen. Please also discuss any effect this would have on revenue collected or anticipated.

RESPONSE

Credit card payments are currently accepted for all tax types with the exception of Real Property tax. Real Property payments may be made online, but at this time only by e-check due to the limitations of the current third party vendor. The OCFO is currently evaluating options to procure a new system for administration of Real Property tax, at which time we expect to be able to offer a credit card payment option for this tax type as well.

For Income, Estate, Franchise and Withholding tax, credit and debit card payments are accepted through the MyTax.dc.gov portal, and a 2.5% fee is charged by our third party processor (Kubra) for this service. Beginning in October, 2017, this payment portal will also accept payments for Sales tax payments, as the third phase of MITS implementation is complete.

Currently, for Sales and other miscellaneous taxes, credit/debit card payments can be made through the Electronic Taxpayer Service Center (eTSC) or online directly with our third party processor, ACI Worldwide (formerly known as Official Payments), with a fee of 2.49% (or a minimum charge of $3.95). Sales tax will be converted to MITS in October, 2017, with Motor Fuel, Ballpark and other small taxes coming over in October, 2018. When this is complete, all online payment options will be available through the MyTax.dc.gov portal.

12. What is the number of returns of Schedule H tax credits denied for income tax year 2016 as of April 15, 2017?

    RESPONSE

    For "Stand Alone" Schedule H requests for Tax Year 2016, 4 were denied because they failed the test for income $2,000 greater than the rent paid or incomplete Section B.

    D-40s with attached Schedule H may have their refunds reduced or liabilities increased for any number of reasons and the Schedule H credit is not isolated. Therefore we cannot establish how many of these may have been rejected or adjusted due to the Schedule H.

13. Please provide an update on your strategic plan, and note what is expected for the remainder of Fiscal Year 2017, and what is planned for Fiscal Year 2018. Please also comment on any training opportunities for employees.

    RESPONSE

    See **Attachment 13**. The plans for FY 2018 and beyond are included in the OCFO Strategic Plan that you will receive on May 5, 2017.

14. Please comment on the following recently released OIG reports and your plans (including action items and timeline) to address any recommended findings:
    - OIG Project No. 16-1-14AT "Office of the Chief Financial Officer: Evaluation of the District of Columbia Government's Management and Valuation of Commercial Real Property Assessments"

RESPONSE

Please refer to the responses to Project 16-1-14AT **(Attachment 14a)** beginning in Appendix "A" on page 44 of the report, under the heading "Agency's Response the Draft Report."

- OIG Project No. 16-1-14AT(a) "Office of the Chief Financial Officer: Internal Controls Over the District's Commercial Real Property Assessment Process"

RESPONSE

Please refer to responses outlined in the Internal Controls Audit **(Attachment 14b)**, beginning on page six of the report under the heading "Management Response."

OFFICE OF THE CHIEF FINANCIAL OFFICER

(excluding the Office of Budget & Planning)

FY 2016 Operating Budget, Expenditures, and FTEs

CSG	Comptroller Source Group Title	Approved Budget	Expenditure	Authorized FTEs
01 - PERSONAL SERVICES				
11	REGULAR PAY - CONT FULL TIME	78,422,565	76,380,801	921.8
12	REGULAR PAY - OTHER	841,606	1,280,536	6
13	ADDITIONAL GROSS PAY	51,250	737,992	
14	FRINGE BENEFITS - CURR PERSONNEL	16,508,802	16,731,297	
15	OVERTIME PAY	25,000	614,964	
99	UNKNOWN PAYROLL POSTINGS	0	0	
01 - PERSONAL SERVICES		**95,849,223**	**95,745,590**	**927.8**
02 - NONPERSONAL SERVICES				
20	SUPPLIES AND MATERIALS	470,968	285,355	
31	TELEPHONE, TELEGRAPH, TELEGRAM, ETC	0	0	
40	OTHER SERVICES AND CHARGES	11,007,570	11,518,302	
41	CONTRACTUAL SERVICES - OTHER	30,947,056	30,370,264	
70	EQUIPMENT & EQUIPMENT RENTAL	1,369,267	1,503,075	
02 - NONPERSONAL SERVICES		**43,794,861**	**43,676,997**	
		139,644,084	**139,422,587**	

OFFICE OF THE CHIEF FINANCIAL OFFICER

(excluding the Office of Budget & Planning)

FY 2017 Requested Budget and FTEs

CSG	Comptroller Source Group Title	Approved Budget	Current Expenditure	Requested FTEs
11	REGULAR PAY - CONT FULL TIME	82,192,824	39,845,396	928
12	REGULAR PAY - OTHER	867,088	603,002	11
13	ADDITIONAL GROSS PAY	51,250	191,563	
14	FRINGE BENEFITS - CURR PERSONNEL	19,315,531	8,714,743	
15	OVERTIME PAY	25,000	178,893	
99	UNKNOWN PAYROLL POSTINGS	0		
01 - PERSONAL SERVICES		**102,451,692**	**49,533,597**	**939**
02 - NONPERSONAL SERVICES				
20	SUPPLIES AND MATERIALS	452,794	177,053	
31	TELEPHONE, TELEGRAPH, TELEGRAM, ETC	0	0	
40	OTHER SERVICES AND CHARGES	12,866,407	4,876,127	
41	CONTRACTUAL SERVICES - OTHER	55,898,150	8,994,891	
50	SUBSIDIES AND TRANSFERS	0	0	
70	EQUIPMENT & EQUIPMENT RENTAL	912,636	423,615	
02 - NONPERSONAL SERVICES		**70,129,987**	**14,471,685**	
		172,581,679	**64,005,282**	

OFFICE OF THE CHIEF FINANCIAL OFFICER

(excluding the Office of Budget & Planning)

FY 2018 Requested Budget and FTEs

CSG	Comptroller Source Group Title	Approved Budget	Requested FTEs
11	REGULAR PAY - CONT FULL TIME	85,124,568	951
12	REGULAR PAY - OTHER	804,522	11
13	ADDITIONAL GROSS PAY	76,250	
14	FRINGE BENEFITS - CURR PERSONNEL	19,142,440	
15	OVERTIME PAY	0	
99	UNKNOWN PAYROLL POSTINGS	0	
01 - PERSONAL SERVICES		**105,147,781**	**962**
02 - NONPERSONAL SERVICES			
20	SUPPLIES AND MATERIALS	451,593	
31	TELEPHONE, TELEGRAPH, TELEGRAM, ETC	0	
40	OTHER SERVICES AND CHARGES	11,606,826	
41	CONTRACTUAL SERVICES - OTHER	55,116,111	
50	SUBSIDIES AND TRANSFERS	0	
70	EQUIPMENT & EQUIPMENT RENTAL	1,346,466	
02 - NONPERSONAL SERVICES		**68,520,996**	
		173,668,776	

Attachment 2

Office of the Chief Financial Officer - AT0

Program Enhancements, Technical Adjustments and Reductions Included in the FY 2018 Agency Budget

	Type	Program	Amount of Request ($)	FTE Request	Comments
LOCAL FUND					
CSFL Adjustments - PS	Adjustment	All	$ 324,595		Allocation of CSFL Increase
CSFL Adjustments - NPS	Adjustment	All	$ 130,000		Allocation of CSFL Increase
CSFL Adjustments - NPS	Adjustment	CIO	$ 600,000		Operating impact of capital project - system maintenance for CFO Solve
FTE Adjustments	Enhancement	OFT	$ -	2	Using existing budget, convert contract position to FTE; split funding for 1 FTE into 2 FTEs
Convert to Local in OFT Debt Management	Enhancement	OFT	$ 234,000	1.5	FTEs formerly funded by Master Lease are needed to work on other debt service programs; convert to local funding
Convert to Local in OTR Revenue Accounting	Enhancement	OTR	$ 76,687	1	FTE no longer supported by SPR funding; convert to local funding
Tax Liability Bank Attachements	Enhancement	OTR	$ 310,532	4	Addition of 2 Revenue Officers and 2 Tax Auditors to support bank attachments initiative
Homestead Deduction Match	Enhancement	OTR	$ 240,137	3	Addition of 2 Program Specialist and 1 Accounting Technician to support Homestead match program
TOTAL LOCAL OCFO			**$ 1,915,951**	**11.5**	
SPECIAL PURPOSE REVENUE (SPR)					
Increase CCU Staff	Enhancement	OFT	$ 895,358	9	Increased staff support needed for CCU delinquent collection efforts
Banking Contract	Enhancement	OFT	$ 500,000	0	Increase to support projected costs of new lockbox contract
ROD Surcharge	Reduction	OTR	$ (848,360)	0	Decrease to reflect projected charges to fund.
SPR Adjustments	Enhancement	Multiple	$ 2,459	0	Net impact of other adjustments to SPR budgets to reflect projected costs.
TOTAL SPR OCFO			**$ 549,457**	**9**	

		Type	Program	Amount of Request ($)	FTE Request	Comments
INTRA-DISTRICT (I-D)						
	Merchant Fees	Enhancement	OFT	$ 150,000	0	To record credit card fees funded by SPR in other agencies.
	Single Audit Adjustment	Reduction	OIO	$ (400,000)	0	To reflect projected Single Audit contract costs
	Financial Operations Support	Enhancement	MGMT	$ 290,622	3	MOUs with EDRC agencies for financial staff support
	I-D Adjustments	Reduction	Multiple	$ (191,979)	-0.5	Net impact of other adjustments to I-D budgets to reflect projected costs.
TOTAL I-D OCFO				**$ (151,356)**	**2.5**	
Federal Grants (Grants)						
	Federal Grant	Reduction	OFT	$ (75,000)	0	To reflect reductions in cost of SNAP and TANF disbursements contract
TOTAL Grant OCFO				**$ (75,000)**	**0.0**	
TOTAL ALL OCFO				**$ 2,239,051**	**23.0**	

Attachment 3

Office of the Chief Financial Officer - AT0

FY 17 - FY 18 Proposed FTE Changes

	Program - Description	FTE Request	Funding Source	Revenue Estimate	Comments	On Board/ Estinated Start Date
LOCAL FUND						
100F Financial Operations - 3 FTEs						
100F	Financial Operations - EDRC Staffing	3	ID - Fund 0707	$ -	Funding provided via MOUs for 3 staff currently providing services to EDRC	3 on board
5000 Tax Administration - 7 FTEs						
5000	OTR Compliance - Tax Liability Bank Attachements	4	Local - Fund 100	$ 5,780,000	Four FTEs (2 Revenue Officers and 2 Tax Examiners) will be dedicated to • Analyzing data mining results to prioritze accounts for levy action • Preparing levies • Handling correspondence • Handling phone calls from both the banks and the taxpayers subject to levy.	10/1/2017
5000	Homestead Deduction Match	3	Local - Fund 100	$ 10,000,000	OTR is pursuing a contract with a vendor to provide data matching on homestead filings in other jurisdictions. In order to work the list of potentially ineligible taxpayers identified through this process, RPTA has requested 3 FTEs (2 Program Specialists and 1 Accounting Technician) to notify taxpayers, handle calls and correspondence, process any documentation that proves District domicile, and revoke the Homestead on any properties for which the exemption cannot be substantiated. These properties will also need to have their annual property taxes recalculated for the three years prior, removing the cap on the taxable assessment.	10/1/2017
7000 Finance and Treasury - 14 FTEs						
7000	OFT - FTE Adjustments	1.0	Local - Fund 100	$ -	Convert a current contract position into a Banking Analyst FTE.	Contract staff currently performing the duties
7000	OFT - FTE Adjustments	1.0	Local - Fund 100	$ -	The OFT Cash Management unit is reconfiguring their staffing to enhance productivity. We currently have 1 Financial Manager position, grade 14. We will convert that into 2 FTEs, Financial Analyst (9/11/12) and Accounting Technician (7/8).	10/1/2017

Attachment 3

Office of the Chief Financial Officer - AT0

FY 17 - FY 18 Proposed FTE Changes

7000	Central Collections Unit	9.0	SPR - Fund 6115	$4,000,000 - increased delinquent collections	For FY2018, we are requesting two Collections Representatives for Blue Plains; the other seven new staff will be at the main CCU office. With this additional staffing, the CCU will conduct revenue initiatives, adequately monitor the outside collection agency, and insure compliance with the Immobilization Act by staffing Blue Plains. The CCU will be more equipped to function as intended when the legislation was passed, with the goal of increasing revenue collections while maintaining high customer service standards and assuring proper controls over information. The new staff will also replace contractual Collections Representatives as risk mitigation to limit access to sensitive District proprietary systems and citizens' personal financial information.	10/1/2017
7000	OMA Contract Specialist	1.0	SPR Fund 0623/0614	$ -	The asset management programs managed within the Office of Finance and Treasury (401(a), 457(b), OPEB Fund, 529 College Savings Program) have dramatically increased in size and complexity over the past 5 years. The combined assets for the programs total approximately $3 billion. The number of contracts required to manage the operations of these programs have increased significantly. These programs combined require investment managers, accountants, consultants, program administrators, actuaries, custody services and other providers. Also, as the number of service providers has increased, the procurement RFP process including vendor selection has also become more complex.	10/1/2017
7000	OFT OPEB Management	2	SPR - Fund 0623	$ -	The OPEB Fund has grown to over $1.1 billion in assets. It uses numerous investment managers, accountants, consultants and service providers and the number of retirees will increase rapidly in the future because the plan was developed for employees that were hired after 1987. That population will begin to retire in large numbers beginning in 2017. In addition, City Council has passed legislation that created an Advisory Committee and formal reporting requirements for the Fund. These changes require the administrative separation of the unit to its own operating structure where dedicated resources can be devoted full time to the administration of this large, complex and growing Fund.	10/1/2017

OCFO Special Purpose Revenue Funds					**Attachment 10**
FY 18 Budgeted Amounts and Current Fund Balances					**4/24/2017**
Fund	**Title**	**FY 18 Budget Amount ($)**	**Current Fund Balance**	**FTEs**	**Comments**
0602	Payroll Service Fees	363,388	0	3.0	Fund 0602 supports the payroll operations for third party payments and other directed payments (garnishments, child support, etc.)
0603	Payroll Service Contracts	1,136,636	0	6.0	Fund 0603 supports the processing of retirement benefits for federal retirees. This fund is a reimbursement from federal agencies.
0605	Dishonored Check Fee	34,057	0	0.0	Fund 0605 supports the collection of dishonored checks. Note, collection efforts for checks written for delinquent debt (over 90 days past due) now fall under the CCU, except for tax payments.
0606	Recorder of Deeds Surcharge	1,384,911	1,920,173	0.0	Fund 0606 supports technology and electronic access improvements for the Recorder of Deeds. Per prior notification, $1M will be swept from fund balance at the end of FY 17. The OCFO is in the base year of a multi-year contract for record cleaning, sorting, scanning, indexing and storing in the amount of $2,079,532.80. The OCFO will need to preserve funding to support this contract along with other charges to the fund.
0608	Drug Prevention Trust Admin	8,000	0	0.0	Fund 0608 supports the cost for administering the collection from taxes of the Drug Prevention Trust.
0610	Bank Fees	5,500,000	0	0.0	Fund 0610 supports bank operations including lockbox collections, billing and other services.
0611	Tax Collection Fees	13,684,036	0	0.0	Fund 0611 supports contract-based tax collection efforts along with fraud avoidance and tax discovery efforts. All contracts in this fund are contingency-based and are dependent upon documented tax collections or fraud savings.

Fund	Title	FY 18 Budget Amount ($)	Current Fund Balance	FTEs	Comments
0613	Unclaimed Property Admin	3,844,380	0	15.0	Fund 0613 supports the administration and collection of unclaimed property. The expansion of internet research tools and other information-based technology has greatly enhanced the operation of this unit.
0614	Fiduciary Fund Admin	856,708	0	4.5	Fund 0614 supports the administration of District fiduciary funds including the 401(a) and 457 retirement plans, as well as the 529 plan.
0619	DC Lottery Admin	1,786,442	0	13.0	Fund 0619 supports lottery administrative costs including legal, procurement, human resources, cashiers, and executive oversight.
0623	OPEB Trust Administration	337,522	0	2.5	Fund 0623 supports the administration of the District's other post-employment benefits (OPEB) trust separate from othe fiduciary funds.
0626	Tobacco Corp Reimbursement	120,956	0	1.0	Fund 0626 supports a cigarette tax auditor plus an MOU with OAG for legal compliance assistance.
6115	Central Collection Unit Admin	14,985,374	21,397,428	19.0	Fund 6115 supports the operations of the Central Collections Unit. This unit collects all non-tax delinquent debt district-wide. The CCU requires an estimated $10M in FY18 to support a new consolidated debt collections contract with a new recording system. These procurements are currently in process. The CCU will implement a new debt collection software system as part of the new contract which will record debt collection data in a single system, replacing the mulitiple systems currently in use. Fund balance, less required reserve, is transferred annually to the General Fund as required by law.
	FY 18 OCFO SPR Budget	**44,042,409**		**64.0**	

SOAR Replacement Project

Attachment 5

SOAR

- Cost of maintenance – expensive to replace hardware/impossible to replace software (highly customized)
- Labor – extreme shortage of labor as mainframes are being replaced and no new IT technicians entering the workforce interested in mainframe
- Cost of change – extremely high as code has to be written in a outdated language. Each legislative change requires many changes
- Support – SOAR is not supported by vendor anymore. Exposes the District to sudden failure of the software or security vulnerabilities
- Resource intensive – while SOAR does basic finance functions well, it is not an integrated platform, as a result each process within each agency is customized costing the District real $ in terms of productivity and customer service
- In an era of government accountability – SOAR is a poor conduit of information

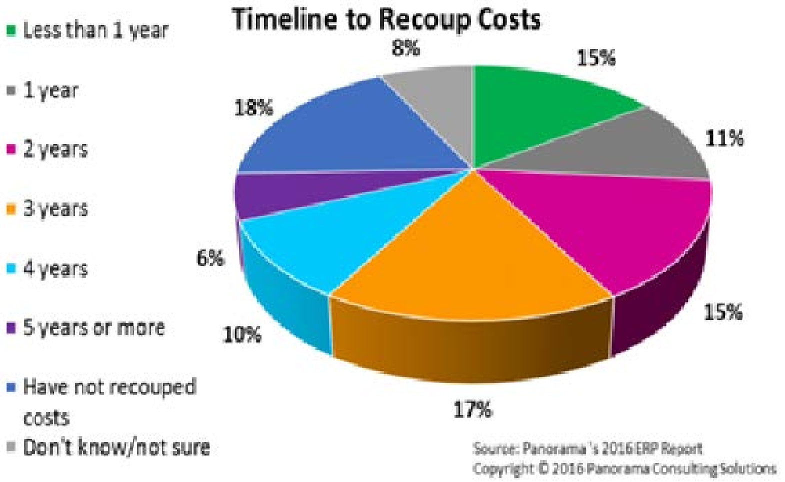
A Modern ERP

- An advanced integrated technology platform that reduces cost and drives efficiency
- Software is built by vendor with common requirements from all industries including government, thereby reduces the need for any customization
- Unified planning, budgeting and forecasting
- Unified general accounting and reporting
- Streamlined finance operations, highly automated via configurable workflow
- Faster cycle time in regards to monthly and annual close
- On average 300% greater efficiency on Procure-to-Pay and Order-to-Cast (per IBM)
- A modern ERP is not a transaction recording platform, rather a platform for advanced analytics that is actionable
- Process Ownership and Optimal Service Delivery Model – Self service
- Software is continuously updated by vendor to keep up to date with legislative changes and compliance requirements

Benefits Realized and Cost Recouped for ERP

Typical Benefits of an ERP

- ✓ Improved data reliability
- ✓ Improved controls for compliance
- ✓ Better informed decision making
- ✓ Less duplication of effort
- ✓ Improved customer service/satisfaction
- ✓ Improved productivity/efficiency
- ✓ Reduced IT Maintenance costs
- ✓ Reduced operating and labor costs
- ✓ Increased integration with other systems
- ✓ Eliminate over 300 shadow databases and spreadsheets throughout the organization



Average Return on Investment

- ✓ Enterprise Resource Planning (ERP) applications deliver high return on investment (ROI), with an average benefit of $7.23 returned for every dollar spent, according to a Nucleus Research analysis
- ✓ Based on the chart on left more than 2/3rd received payback with the first 4 years

With an aging legacy system on limited support, the District is not taking advantage of the process improvements that comes with an ERP. A modern integrated ERP system will greatly improve the financial processes within the District.

Attachment 13

Strategic Initiative	Actions Planned/Scheduled for FY 2017
Implement a Modernized Integrated Tax System (MITS) to replace the current tax system	Continue MITS project implementation Phase III (sales and use taxes)
Implement a new telephone system in the Office of Tax and Revenue to improve customer service	Implement Phase II of the telephone/customer relation system upgrade
Develop a comprehensive customer service training program for all OCFO staff	The following mandatory customer service training courses will be conducted during FY 2017: 1. Dealing with Difficult Customers 2. Navigating Challenges to Promote a Positive Customer Service Experience 3. Achieving Exceptional Customer Service
Enhance current practices to strengthen internal controls and ensure compliance	Complete risk assessment and begin implementation of enterprise risk management (ERM) framework.
Improve District-wide vendor payment process to ensure more efficient and timely payments by all agencies	Implement e-invoicing, in partnership with OCTO, for timely payments by all agencies.
Implement a long-range (15-20 year) capital financing plan for the District	Further review of capital maintenance and other long-term capital needs to further enhance long-range capital financial plan.
Implement a new enterprise-wide financial reporting, accounting and budgeting system, and enhance availability of information to the public	Begin development of enterprise financial system implementation plan with OCTO and OCP.
Create a comprehensive community outreach program for regular feedback	Ongoing
Implement a program for continuous improvement on employee-driven process improvement teams	Continue to drive culture of continuous improvement.
Complete an external "best practices" review of all DC Lottery activities and expand base for retail products	Assess and implement DC Lottery "best practices" findings from 2016 study, where applicable, and expand base for retail products.
Implement improved process to notify seniors of property tax credit	Completed.
Review current debt and investment systems and strategies to minimize cost and maximize revenues within debt and investment policies	Acquire financial systems and technical expertise to increase efficiency of treasury investment operations.
Upgrade income tax policy analysis and forecasting models	Upgrade policy analysis and forecasting tools for Real Property and Sales Tax income stream.
Improve usability and usefulness of information on OCFO website	Ongoing.
Implement online process to receive clean-hands compliance notices	Completed.
Implement tools to protect taxpayer identity and reduce fraud	Additional fraud reduction efforts, including utilization of new tools.

Implement a formal municipal bond investor outreach program	Continue outreach to institutional investors. The next investor conference will be held in December 2017.
Improve timeliness and availability of grant information to agencies	• Schedule Quarterly Meetings for grant personnel • Engage Leadership • Distribute Training Survey, capture results and conduct analysis • Release grants dashboard • Conduct dashboard training • Validate roles and responsibilities • Identify subject matter experts • Develop standardized procedures for entire grant lifecycle • Disseminate manual and conduct training • Start procurement for business process re-engineering
Expand external recruiting through partnerships with local universities, career centers, and professional associations	Continue external recruiting efforts.
Modernize payment operations across the District	Modernize payment operations across District to include: electronic payments to all vendors and benefit recipients, and increase employee direct deposits.
Continue and enhance OCFO Ethics Training	Ongoing.
Improve the quality of financial information available to the public by integrating related information from other agencies (DOES, DCRA, etc.)	Continue to work with other agencies on database integration.

Attachment 14a

DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 16-1-14AT

April 2017

OIG

OFFICE OF THE CHIEF FINANCIAL OFFICER:

EVALUATION OF THE DISTRICT OF COLUMBIA GOVERNMENT'S MANAGEMENT AND VALUATION OF COMMERCIAL REAL PROPERTY ASSESSMENTS

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 Auditor's report, entitled *Evaluation of the District of Columbia Government's Management and Valuation of Commercial Real Property Assessments*, 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 No. 16-1-14AT).

Pursuant to D.C. Code § 47-821(e), the OIG contracted with GKA to conduct this evaluation. This report contains 37 recommendations directed to the Office of the Chief Financial Officer (OCFO) for its actions, which, if implemented, will help improve OCFO's appraisal practices and its human capital development and management processes.

We submitted the report to OCFO on December 28, 2016, and received its response on March 27, 2017. This response is included in its entirety in appendix A. We appreciate the cooperation and courtesies extended to our staff during this audit. If you have questions, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/bh

Enclosure

cc: See Distribution List

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Evaluation of the District of Columbia Government's Management and Valuation of Commercial Real Property Assessments

Table of Contents

EXECUTIVE SUMMARY

Overview

The District of Columbia Office of Inspector General, in accordance with DC Code Section 47-821(e), contracted GKA, PC to conduct an independent evaluation of the District's management and valuation of its commercial real property assessments. The scope of the evaluation encompassed the following:

A. Evaluation of the commercial real property assessment process;
B. Evaluation of the organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, and staff development functions;
C. Examination of hiring practices, including whether the human resources rules and regulations to which the Office of the Chief Financial Officer (OCFO) is subject, hinder or enhance the ability of the Office of Tax and Revenue (OTR) to attract, develop, and retain a well-qualified workforce; and
D. Recommendations for improving the commercial real property assessment process and human capital management functions within OTR.

The management and evaluation of the commercial real property assessments is conducted by the Real Property Assessment Division (RPAD). RPAD is a unit within the Real Property Tax Administration (RPTA), which in turn is a unit within OTR. RPAD collects information regarding commercial real properties in the District and determines the annual tax base for each property.

In determining the tax assessment, RPAD uses Computer Assisted Mass Appraisal techniques, which rely on valuation models, to arrive at assessed values that approximate fair values for each commercial real property in the District. Assessments are regulated by the strictures embodied within District of Columbia Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees. RPAD undertakes an annual revaluation of each commercial property, which approximates 40,000 in number. It uses all three basic valuation methods (namely, the cost approach, the sales comparison approach, and the income capitalization approach), but emphasizes the income capitalization approach. Its work is supported by a powerful computer-assisted mass appraisal (CAMA) system, which is linked to the District's Integrated Tax System (ITS). RPAD also uses a geographic information system (GIS) and images of properties. It publicizes its appraisal methods in a document entitled *Appraiser Reference Materials* (ARM).

Assessments are subject to appeals filed at three levels depending on whether or not the outcome of the appeal at each level is satisfactory to the property owner: Appeals are filed first to RPTA, second to the Real Property Tax Appeals Commission (RPTAC, formerly the Board of Real Property Assessments and Appeals or BRPAA), and ultimately to the Superior Court of the District of Columbia.

Evaluation

The District's commercial real property assessment system has a number of strengths. The Code contains two provisions that are essential to a well-administered property tax based on market value: the mandatory disclosure of (1) sales prices and terms and (2) rental property income and expense (I&E) data, with the second disclosures being treated confidentially.

RPAD, part of RPTA, has made considerable progress in implementing the recommendations made by Almy, Gloudemans, Jacobs and Denne (AGJD) in 2012. It continues to use all three basic valuation methods (namely, the cost approach, the sales comparison approach, and the income capitalization approach), but it emphasizes the income approach. It uses multivariate mass appraisal models in the valuation of most apartment properties. It has made improvements in its office valuation procedures and its hotel valuation procedures reflect the state-of-the art of the industry. It publicizes its appraisal methods in a document entitled ARM. It makes and publishes sales ratio studies.

RPTA and RPAD managers also continue to face challenges. One is the fact that the assessments of a large percentage of commercial properties are appealed each year. Appellants are seldom satisfied during the first level of appeals. This diverts resources from producing defensible assessments to defending assessments. In other words, the District has an appeals-driven commercial property assessment system. Another difficulty is an assessment calendar that makes it impossible to consider the most current I&E data in the annual reassessment program. The notice deadline comes before the deadline for submitting I&E statements.

One of the many strengths RPTA possesses is a Chief Financial Officer (CFO) who is deeply invested in the success and growth of the agency. Agency personnel have testified to the CFO's efforts to swiftly allocate much needed resources for critical equipment and facility enhancements and his close engagement in the agency's efforts to implement audit recommendations. However, a number of challenges exist. On the organization front, RPAD largely operates without a written and explicit organizational strategy, human resources strategy, and operating plans that reflect its approach to successfully achieving the OCFO's strategic objectives and initiatives. Its training and staff development efforts lack structure and its current hiring processes and practices have resulted in significant delays in filling some key positions. The absence of a workload measurement system represents a barrier to assessing the impact of workload on employee morale and the effectiveness of assessments. Lastly, RPTA lacks formal structural mechanisms to innovate, manage quality, and adhere to best practices.

Recommendations

The evaluation uncovered several opportunities for improvement. We offer 37 recommendations that we believe, when implemented, will enhance the strategic and operational effectiveness of RPTA and better promote the quality of the District's commercial real property assessment functions. The following recommendations are among our complete recommendations fully detailed in the report:

- Improving the accuracy of retail property values;
- Developing a plan to ensure that all properties are re-inspected with sufficient regularity so that descriptions are up-to-date;
- Crafting organizational and human resources strategies for RPTA that represents broad means for executing the OCFO's strategic objectives and initiatives; and
- Formulating a balanced scorecard linking operational activities to the organizational strategy and achieving a tight alignment between organizational strategy, organizational structure, human resources strategy and operational plans.

INTRODUCTION

Background

As the nation's capital, Washington, D.C., has a high concentration of commercial properties, especially office buildings and hotels. In addition, it has numerous taxable possessory interests and air rights.

The District of Columbia assesses and collects commercial real property tax under the provisions of District of Columbia Official Code, Title 47, Taxation, Licensing, Permits, Assessments, and Fees (hereafter, "the Code"). Assessments are based on market values. Properties are re-valued annually based on the arms length sales of similar properties. For this purpose, the Code mandates that parties to a transfer of real property disclose to OTR the price paid and other facts about the sale. Also, owners of rental properties are required to submit information about rents and operating expenses to OTR.

A tax year runs from 1 October to 30 September. For the current tax year (2017), the assessment date is 1 January 2016. Properties are classified for purposes of taxation. The classes and their current tax rates are:

1. Residential (including apartments), which are taxed at a rate of $0.85 per $100 of assessed value;
2. Commercial, which are taxed at a rate of $1.65 per $100 of assessed value for the first $3 million of value and a rate of $1.85 per $100 on any remainder;
3. Vacant, which are taxed at a rate of $5.00 per $100 of assessed value; and
4. Blighted, which are taxed at a rate of $10 per $100 of assessed value.

Our review focused on the assessment of Class 2 property (commercial), of which there are approximately 16,300 parcels. The differential in tax rates at the $3 million breakpoint is probably small enough not to put undue pressure to reduce values to the lower-tax subclass. There are special provisions for the assessment of mixed-use properties. The Department of Consumer and Regulatory Affairs (DCRA), not RPAD, is responsible for classifying properties as vacant or blighted.

There is a three-stage assessment appeal structure. The first step is to RPAD. Taxpayers dissatisfied with the results of this appeal may appeal to RPTAC. The third level of appeal is to the Superior Court of the District of Columbia, Tax Division. First-level appeals begin in mid-April and usually are heard by June.

Most commercial property owners are represented by agents who mainly are compensated by receiving a percentage of any property tax reduction, and the annual volume of appeals at all three levels is considerable. The time and expense involved in defending assessments detract from initial assessment efforts. Efforts are made at all three levels to clear appeal backlogs, chiefly by negotiating a settlement.

To manage effectively the District’s commercial real property, the OCFO is responsible for using a strategic human resource and development plan in hiring and retaining competent professionals.

Objectives, Scope, and Methodology

The engagement was separated into two distinct tasks:

- **Task 1**: An evaluation of the commercial real property assessment process; and

- **Task 2**: An evaluation of the organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, and staff development functions; and an examination of hiring practices, including whether the human resources rules and regulations to which OCFO is subject hinder or enhance the ability of OTR to attract, develop, and retain a well-qualified workforce.

The objective of Task 1 is to evaluate the District's commercial assessment procedures. They were evaluated in the light of legal requirements and professional standards, notably the Uniform Standards of Professional Appraisal Practices (USPAP). The most relevant parts of USPAP are:

- The Ethics Rule;
- The Competency Rule;
- The Scope of Work Rule;
- The Jurisdictional Exception Rule; and
- Standard 6: Mass Appraisal, Development and Reporting.

USPAP Standard 6 sets out general expectations. The technical standards of the International Association of Assessing Officers (IAAO) provide more specific guidance. The relevant standards include:

- Standard on Assessment Appeal (2001);
- Standard on Digital Cadastral Maps and Parcel Identifies (2012);
- Standard on Mass Appraisal of Real Property (2012);
- Standard on Property Tax Policy (2010);
- Standard on Ratio Studies (2013); and
- Standard on Verification and Adjustment of Sales (2010).

Judgment is required in applying USPAP requirements to a particular situation. In addition, much of USPAP is written from an individual appraisal orientation rather than a mass appraisal orientation. Finally, there appears to be nothing in the District of Columbia Code or in the Municipal Regulations that requires appraisers in RPAD to adhere to USPAP. Nevertheless, we will cite USPAP when we think the standards support changes in practices that we will be recommending. Similarly, there appears to be no law or policy that requires adherence to the IAAO's voluntary technical standards.

The evaluation of commercial assessment procedures is based on interviews with RPAD staff, a study of available documentation, system demonstrations, and an analysis of assessment and sales data.

Task 1 was conducted by our sub-contractor AGJD.

The objective of task 2 was to assess the effectiveness with which the organizational structure, workload statistics, performance measures, compensation requirements, staffing levels, training, qualifications, staff development functions, and hiring practices support and enhance the District's commercial real property assessments. Task 2 was undertaken within the framework of the Statements on Standards for Consulting Engagements promulgated by the American Institute of Certified Public Accountants and was conducted by GKA. To achieve the objectives of Task 2, we conducted interviews, collected and analyzed data, inspected documentation, and physically observed the assessment process. Engagement activities under this task were conducted in three (3) phases:

- Engagement initiation and planning;
- Engagement conduct and control; and
- Review and reporting.

EVALUATION OF THE COMMERCIAL REAL PROPERTY ASSESSMENT PROCESS

Property Attribute Data Collection and Maintenance

Accurate descriptions of land parcels and of buildings, premises, and other structures are essential to accurate valuation and assessment. Data are needed on use, location, size, and all the other factors that are important. After a property is initially described, the descriptions need to be kept current.

Cadastral maps provide a graphic representation of the shape, size, and position of each land parcel. They provide a means for ensuring that all parcels are known, accurately described, and accounted for. They also are useful in visualizing patterns and in planning work. The District has long had a high quality cadastral mapping system. The maps are now digital and part of the GIS. Map maintenance involves the Office of the Surveyor (OS) in DCRA, the Office of the Chief Technology Officer, and the Maps & Titles unit of RPAD, which maintains the assessment and tax lot layer of the GIS. OS is responsible for approving plats and the like and for mapping them. RPAD maintains assessment and tax lots, which correspond to surveyed lots, except when an owner has requested a split or combination.

An important component of the mapping system is the system of parcel identifiers. These are handy representations of often lengthy legal descriptions and less precise street addresses. They make it easier to link land records and related documents. In the District of Columbia, a parcel identifier is known as the Square-Suffix-Lot (SSL). Each segment of the identifier has four characters. A square generally is a city block, and all properties have a square and lot identifier. Importantly, each SSL represents a single parcel configuration. That is, if the configuration of a parcel changes (through a combination or a split), that parcel's identifier is retired, and new identifiers are assigned.

Information on the location and land parcel characteristics that is maintained includes the SSL, address, area (in square feet), use (coded), zoning, appraiser defined neighborhood, and other delineated areas. In principle, these characteristics are sufficient for the valuation of urban land. In practice, there are opportunities for improvement. Currently, a single set of neighborhoods is used for all types of commercial properties. Often apartment, retail, office, and industrial submarkets do not coincide, and it would be desirable to analyze value patterns and delineate separate sets of market areas (neighborhoods). In addition, some current neighborhoods have too few properties for reliable statistical analysis. Additional characteristics should be considered, such as proximity to Metro Stations and traffic counts.

1. **We recommend that RPAD evaluate whether the current nine market areas are appropriate in the valuation of the types of commercial properties, as discussed later. A general issue is whether the areas are large enough to produce reliable samples of sales and I&E reports.**

The volume of appeals has prevented RPAD from carrying out regular field canvasses as standards recommend. However, properties that have been sold or appealed are inspected. The volume of appeals is such that most properties are inspected either in the field or via Pictometry's oblique aerial photographs.

The lack of regular field canvasses is potentially a more serious issue in the case of buildings because a variety of physical changes that can affect values are possible. As mentioned above, appraisers do inspect properties when they are sold and when they are under appeal. In addition, RPAD receives information about building permits from DCRA (the two agencies' systems are not fully integrated). Appraisers also can obtain copies of building plans from DCRA. The Code (§ 47-820) gives appraisers the necessary authority to make on-site inspections. When a property is inspected, details necessary for determining the cost of the construction are recorded together with other important characteristics, such as use and effective area.

2. **We recommend that RPAD management develop a plan for periodically inspecting properties so there is reasonable assurance that property characteristics data are up-to-date.**

RPAD has established reasonable procedures for logging permits, extracting pertinent information from DCRA reports, identifying situations in which an inspection is required, and making inspections. Nonetheless, supplemental assessment provisions of the Code (§ 47-829) complicate inspection requirements. These provisions pertain to exempting new construction until it is 65 percent complete and to making semiannual supplementary assessments of increments in assessable new construction. Thus, it is necessary for RPAD staff to verify the property to which the permit belongs. Each property is assigned to a specific appraiser based on its use and location. The District's use coding system consists of three-character numerical codes accompanied by their associated descriptions. Part of the description is the associated tax class, which is a good feature. When a property's use is changed, it may be assigned to a different appraiser. The permit-tracking module of the CAMA system does not contain full details of the status of new construction, necessitating a conference between the two appraisers. This can be difficult to arrange due to appeals schedules and other complications. Fortunately, the regulations contain guidelines for determining when a structure is 65 percent complete.

Sales Data Acquisition and Processing

Sales prices generally are disclosed to OTR. Deeds and other transfer documents are recorded with the Recorder of Deeds (ROD), a division of the OCFO. Throughout the year, ROD regularly transmits deed and sales information to RPAD.

Initially the Maps & Titles/Roll Unit receives the information. Ownership changes are recorded in ITS, and a sales record is created in the CAMA system. (When a new parcel is created or when an existing parcel is divided or combined with another, Maps & Titles updates the cadastral layer of the GIS, and appraisers are notified about the change.) The Standards and Services unit coordinates the processing of sales records. Sales questionnaires are used. Procedures are adequately documented.

Approximately weekly, when work schedules allow, appraisal unit supervisors assign batches of recent sales to appraisers for field review to ensure that the properties are correctly described and to confirm the details of the sales. Appraisers are expected to find two sources of confirmation (including industry reports such as Costar). Appraisers also must assign an "acceptance code." In keeping with recommended practice, a sale is deemed usable (that is, an open-market, arm's-length sale) unless there is a specific reason for deeming it unusable. Of course, a sale that is usable in appraisal may not be usable in a ratio study (when the physical characteristics of the property when sold differed from the characteristics when assessed). The District's screening procedure focuses on usability in appraisal rather than for both purposes (many assessment districts focus only on usability in ratio studies, ignoring sales potentially usable in valuation). Notably, the CAMA system allows for two usability codes.

RPAD has established 19 acceptance codes. There are nine codes that apply to single-property sales and a corresponding nine codes that apply to multi-parcel sales. (The treatment of multi-parcel sales as potentially usable is an improvement since AGJD's 2012 review of commercial assessment procedures.) Finally, there is a code for tax sales. For single-property sales, the default code is 01(a usable, market sale). Strictly speaking, code 01 applies only to improved property sales, as code 09 applies to usable land sales. (The corresponding codes for multi-parcel sales are M1 and M9.) The remaining codes usually indicate that the sale has been deemed unusable.

3. **We recommend that RPAD reconfigure the CAMA system to begin recording sale qualifications with respect to sales-ratio study purposes as well as validations with respect to modeling purposes.**

In addition to implementing a system of dual acceptance codes (for appraisal and for ratio studies), two additional matters pertaining to acceptance codes merit consideration. The most important is code 07 (speculative). The motives of a buyer are difficult to discern uniformly, and a low price is not necessarily evidence of undue speculation. Almost all purchases involve some degree of speculation about the wisdom of the purchase. Code 04 (unusual) is a broad category; many assessment districts would have separate codes for each category.

4. **We recommend that RPAD not use code 07 unless there is convincing documentation that the sale was "speculative."**

I&E Data and Processing

Appropriately, most commercial properties are valued by the income approach, which depends on I&E data, the primary source of which is I&E surveys completed by taxpayers or their agents. RPAD has reduced the number of I&E forms from five to three: one for apartments, one for hotels, and one for all other commercial property. To avoid a 10 percent penalty assessment, I&E forms must be returned by April15 of the year preceding the tax year (TY). That is, by April 15, 2017 based on operating data for calendar year 2016 data for use for TY 2018. The forms are mailed in late February or early March and, for TY 2016, were returned by approximately 50% of property owners. Later in the year, RPAD sends out a second notice to non-respondents to remind them to file or be subject to the penalty. This increases the response rate to approximately 70%. RPAD scans the returned forms and batches and sends them to a vendor for keying. The vendor saves the keyed data to Excel spreadsheets and sends them back to RPAD.

Although RPAD recently shortened the forms from five to three pages, it also added a separate "new lease abstract" form that requests information on new or renewed leases. Data on lease abstracts are keyed to a separate file and used in the determination of income rates. Additional revisions to the forms that could not be implemented for TY 2017 may be made for TY 2018.

RPAD has moved to streamline the I&E process by providing for electronic submissions. Taxpayers can now download forms, including lease abstracts, from the City's website or complete and submit them on-line. Last year about 15% of returns were submitted electronically.

While RPAD has taken strong steps to improve I&E forms and processing, additional improvements can be made.

5. **We recommend that submitted I&E forms be reviewed by RPAD before they are sent for keying.**

   Forms that are returned blank or largely incomplete should be returned to taxpayers for completion. Additionally, RPAD staff should screen completed forms and mark them as usable, questionable, or unusable. There is no point in keying unusable responses, although they could still be scanned for documentation purposes. Just as sales are screened prior to valuation analysis, income data should be screened, particularly given the fact the RPAD relies principally on the income approach for valuing commercial properties.

We note that RPAD's organization chart includes a vacant I&E auditor position intended to fill the present void.

6. **We recommend strongly that the I&E auditor position be filled by a competent, conscientious person with knowledge of I&E data.**

Understandably, some glitches occurred as the new CAMA software was updated, the most serious of which related to processing returns for economic units involving multiple parcels. Although electronic submissions enable taxpayers to input multiple parcel numbers, the system sometimes recorded only the lead parcel number, resulting in second mailers for associated parcels. One function the I&E auditor should perform is to ensure that all parcels in a submission have been accounted for. I&E software should be reviewed to make processing as accurate and efficient as possible. This is especially important with respect to on-line submissions, which stand to speed processing and save keying costs. One possibility being considered is to automatically populate certain fields for the preparer based on prior responses (e.g., retrieving certain descriptive data from the CAMA system if a valid account number is entered and automatically totaling I&E lines). At some point, once bugs have been worked out, and filers gain experience with and become more aware of its benefits, RPAD should consider requiring electronic filing.

7. **We recommend that I&E processing be further improved.**

Under current legislative code, TY 2018 assessments for both residential and commercial property must reflect a valuation date of January 1, 2017 (§ 47-802 (8)) and notices must be mailed by March 1, 2017 (§ 47-824 (a)). Yet I&E submissions are not due until April 15, 2017. This makes it impossible to use I&E data reflective of calendar 2016 in developing TY 2018 values. Additionally, other sources of commercial property data, such as industry surveys and trends, are not prepared until 4th quarter data can be analyzed and are not available until sometime in the first quarter of the following year. Moving the survey response deadline to earlier in the year (before April 15) is impractical because many or most businesses would not have completed their financial reports. However, moving the commercial notice date from March 1 to June 1 or later would help in that some I&E data, as well as industry publications, would be available for analysis in the preparation of income rates for the upcoming tax year. An improvement in electronic filing rates would also help.

8. **We recommend that RPAD seek to require I&E submissions before the assessment notice deadline.**

Mass Appraisal Modeling and Valuation Approach

Valuation Generally

RPAD maintains considerable documentation on the methods used to appraise property, as well as actual valuation rates and adjustments. The most impressive source is ARM, which is available on the District's website and contains a wealth of information on appraisal methods, valuation rates, sales ratios, and value changes. Other documentation includes the *Employee Handbook* and the "Pertinent Data Book," which contains tables, graphs, and maps of rental rates, vacancy rates, lease terms, tenant improvements, lease concessions, expense ratios, and capitalization rates for commercial properties. There are two versions of the "Pertinent Data Book": one for appraisers and a less detailed one for the general public.

In keeping with professional standards and best practices, the commercial unit generally employs the three basic approaches to value: the cost approach; the sales comparison approach; and the income approach. While the cost approach is applied to virtually all properties in the District and the sales comparison approach is used to appraise land, primary emphasis is on the income approach in the appraisal of commercial properties, and great improvements have been made in its application since AGJD's 2012 report.

Although the CAMA system supports mass appraisal applications of the income approach, previously it was used only for apartments. Most other income properties were valued one by one using spreadsheet templates that required appraisers to make tedious adjustments for differences between market and actual rents, expiring leases, and pending tenant improvements. Besides being time-consuming, the approach provided fodder to tax agents seeking to challenge selectively particular adjustments, and produced inequities between economically similar properties. However, both office and retail properties have now been converted to CAMA income tables. They are now appraised largely on a mass appraisal basis in which appraisers can make adjustments for submarkets and individual property features.

As recommended in AGJD's 2012 report, RPAD has created and filled a market analyst position in the Standards and Services unit. This key position analyses I&E submissions, including new lease abstracts, and determines typical rents and vacancy, expense, and capitalization ratios for various property types and locations. This process is enhanced by merging lease abstract spreadsheets with spreadsheets of key property characteristics, such as use code and neighborhood, extracted from the CAMA system. This allows the analyst to develop rates and adjustments that correspond to CAMA's income table structure.

Another major improvement relates to capitalization rates, which were previously based on a contracted survey of local real estate professionals. Capitalization rates are now developed in-house by studying the relationship between stabilized net rents and recent sales prices. As such, they are less subjective and more strongly rooted in market data. Because tax amounts are a function of the value being determined for the pending tax year, following best practice in the mass appraisal industry, tax rates are "loaded" into capitalization rates rather than treated as an allowable expense. With generally strong demand and continued declines in interest ratios, capitalization rates have fallen in recent years resulting in higher values.

Cost and Depreciation

Turning to the cost approach, building cost rates are updated each year in accordance with the Marshall Valuation Service. As described in the ARM*,* depreciation is based on a combination of construction grade, year built, and type and year of any renovations. The combination of these factors determines "effective age" used in depreciation tables. Appraisers can apply additional functional or economic obsolescence, if necessary, or enter an override percentage for individual properties.

Land Valuation

Individual appraisers are generally responsible for land values for the properties they oversee. They develop land rates that are reviewed by supervisors and then entered into the CAMA system. Although the District has little vacant land, land values are used in the cost approach and are important for transition properties. Because of staff limitations and the press of other responsibilities, with the exception of vacant land, land values are not updated each year. Rather, selected corridors, neighborhoods, and submarkets are updated each year as resources permit. Tear downs are used to supplement scarce vacant land sales.

While not as important in the District as in jurisdictions that rely more heavily on the cost approach, there is room for improving land appraisal by leveraging land residuals (sales prices for improved properties less improvement values) and conducting mass appraisal oriented analysis analogous to those used to develop income rates (particularly capitalization rates which also rely on sales). In any case, a goal should be to update land values annually along with other valuation rates.

9. **We recommend that RPAD update land values more regularly and refine the valuation approach.**

   Consideration should be given to assigning responsibility for land valuation to a single appraiser/analyst in each commercial unit, or assigning the responsibility entirely to the new commercial unit (the "C" team). One procedural refinement would be to increase sample sizes through land residuals derived from recent improved sales. Part of this effort could be a general reconsideration of commercial market areas. The basic question is whether the existing nine areas serve all types of commercial properties well.

Possessory Interests and Air Rights

An increasing challenge to RPAD is the valuation of possessory interests and air rights. Possessory interests are leasehold interests in government-owned or other tax-exempt properties *(e.g.,* fast food vendors in a federal office building or a hotel built on land leased from a government body under a long-term ground lease). Currently there are at least several hundred such interests in over 150 properties with many more in the pipeline. Much of the current Wharf development will consist of possessory interests.

Appropriately, possessory interests are largely valued on a discounted cash flow basis in which the appraiser determines a projected income stream that is discounted to present value. Since the lessee typically pays virtually all expenses, only a minimal expense allowance is necessary. Many leases are long term (*e.g.,* 60 to 99 year ground leases) to stable tenants, which affords comparatively little risk. Capitalization rates, derived largely from industry publications, typically range from 5% to 8%.

Air rights are the right to use the space above a specified land area above or between specified elevations. They are typically created when the owner of a property sells development rights to the specified space to another party. Air rights may also be leased. The District currently has over 500 recorded air rights. Because of the variation in air rights properties, a single mass appraisal approach may not be practical. Appraisals start with a consideration of each air rights interest. Applications of both the comparable sales and income approaches can be appropriate, with the income approach based on capitalization of the projected income stream less costs of development.

We note that the appraisal of possessory interests and air rights are not addressed in either the ARM *or* the *Employee Handbook.*

10. **We recommend that RPAD adopt procedures for valuing possessory interests and air rights and add them to the ARM and/or *Employee Handbook.***

Valuation of Offices

RPAD has successfully implemented the recommendations in AGJD's 2012 report regarding the valuation of office buildings. Beginning in TY 2015, offices were converted to CAMA income tables. These tables provide for valuation rates and adjustments based on various parameters. Rents used for TY 2017 are a function of nine geographic areas and 10 space types, ranging from basement spaces to class A and "trophy spaces (generally the top 2% of class A properties)." The nine geographic areas correspond roughly to office submarkets defined by CoStar, a leading commercial real property research platform. Thus, there are 90 rent rates (9 x 10) for offices based on space type and geographic submarket. Of course, any given property may have multiple space types (e.g., a class B office building may contain first floor retail space and basement office space). The system values each space at its appropriate rate. Appraisers may assign additional adjustments to properties based on (1) location and (2) tenant appeal (which resides in the *"use"* field in the CAMA income system). For example, assigning a location rating of *"good"* for a location near a metro station and/or other amenities would increase market rent by10%, while assigning a "poor" tenant appeal rating for deferred maintenance would decrease market rent by 20%.

Vacancy and expense ratios also vary by building class *(*C*,* B, A*,* and Trophy) and potentially by the same nine geographic submarkets. Since the valuation of offices begins with gross rents, expense ratios provide for all allowable operating and fixed expenses. For TY 2017, vacancy rates ranged from 7% to 9%. Expense ratios, exclusive of reserves for replacement, which are treated separately, ranged from 21% for trophy buildings to 36% for class C buildings. Appraisers can apply additional adjustments for poor, fair, *good,* and excellent properties.

Like vacancy and expense ratios, capitalization rates are based on building class, although appraisers can again apply additional adjustments. Before additional adjustments, TY 2017 office capitalization rates ranged from 5.8% for trophy properties to 7.2% for class C building.

The Pertinent Data Book contains income rates and adjustments used for office properties. The ARM explains and illustrates the process of income valuation in the CAMA system.

The migration of office buildings to the mass appraisal structure provided by the CAMA system is a positive development. While the process can be improved, it does provide a straightforward path to valuing offices accurately and consistently based on current market conditions. Table updates apply even-handedly to all office properties, and similarly classed properties in the same submarket are treated equally and should see similar values changes. Perhaps equally important, the process is transparent and easily updated, permitting appraisers more time to focus on ensuring data accuracy and analysis.

11. **We recommend that RPAD further improve the valuation of office buildings by reviewing property data for accuracy and consistency and by building data analysis skills.**

    Because capitalization rates are so critical to value determination and office sales are relatively scarce, office sales should be thoroughly researched and consideration should be given to expanding sample sizes through use of prior year sales time-adjusted to the valuation date. Again, building data analysis skills will help, and continuing to check capitalization and other income rates with those reported in industry publications and services will provide additional support.

Valuation of Retail Properties

RPAD has developed income tables for retail properties in the CAMA system that are similar to those used for office buildings except that rent rates are based on net rather than gross rents. Rent rates vary by size, use, floor level, and the same nine geographic market areas used for offices. Again, appraisers can apply additional adjustments for location and tenant appeal. Vacancy and expense ratios can vary by market area, and appraisers can apply adjustments for poor, fair, good, and excellent properties. Cap rates for TY 2017 were set at 6.6% for standard retail properties, 6.8% for shopping centers and malls, and 6.8% for department stores and supermarkets, with additional adjustments provided for very poor to excellent properties.

For TY 2017, RPAD attempted to value retail properties based on the CAMA income tables. However, because retail properties were previously undervalued, there was concern that value increases would be excessive and difficult to support. In the end, retail values were based on a combination of cost and trended prior year values. Thus, retail properties remain undervalued compared to other properties in the District.

12. **We recommend that RPAD develop and vet a plan for valuing retail properties at market value consistent with other properties in the District. This could be accomplished by phasing in increases over a two or three year period.**

    The plan should include consideration of whether:

    - **The nine market areas used for offices are adequate for retail properties. Although the situation may well be different in the District, retail market areas or neighborhoods usually follow traffic corridors more than offices do. Again, while this may well not apply in the District, it would be prudent to consider whether retail areas should be defined separately from office areas.**

    - **Additional space types, easily accommodated in the CAMA system, would be helpful. One example is restaurants. Current rent tables provide a separate rate for restaurant spaces but do not distinguish between fast food and full service restaurants. Although appraisers can apply adjustments for "tenant appeal," standardizing rates creates consistency and lessens the need for individual property adjustments.**

    In any case, retail properties warrant special attention in the march to appraise all properties in the District equitably at market value. We believe that, as with office properties, the CAMA system provides an effective mechanism for generating accurate and equitable values. As noted, the CAMA system allows users to vary vacancy rates (along with rent rates) by market area, and analyses should be conducted to determine whether it would be appropriate to do so. Varying vacancy rates by market area could improve valuation equity while relieving appraisers of the need to apply as many

individual property adjustments. Although Version 7 of CAMA has the ability to apply per square foot (rather than percentage) adjustments for expenses, we see no merit in doing so since per square foot adjustments require more frequent updating than percentage adjustments.

Valuation of Industrial Properties

Unlike other properties in the District, industrial properties are a dying breed in that many are being converted to other uses. Industrial properties are individually appraised largely based on an examination of I&E responses and available sales (cost values are also computed and considered). Values are usually entered into the CAMA system as appraiser "override" values.

While we have no problem with the methodology used for industrial properties, bringing them into the mass appraisal fold would help ensure objectivity and consistency.

13. **We recommend that RPAD develop additional mass appraisal tools for valuing industrial properties.**

    While we have no issue with the appraisal approaches used for industrial properties, we recommend that, like most other properties in the District, they be appraised largely on a mass appraisal basis. Income rates could be developed and entered in CAMA, and sales-based models could be developed. As with other commercial properties, considering prior year sales (appropriately adjusted to the valuation date) could help improve sample sizes. Values should be based on whichever valuation approach works best, or the appraiser could enter an override value. Procedures related to the valuation of industrial properties should be included in the Employee Handbook and/or ARM.

Valuation of Hotels

The District has a vibrant hotel market, with many new hotels either planned or in construction. Hotels are a distinctive class of property, which the appraisal industry treats separately from other properties. RPAD values its over 100 hotel properties individually using a direct capitalization approach tied closely to information obtained on I&E statements. The number of rooms is multiplied by average daily rate and occupancy ratio to obtain gross income from accommodations, to which is added income from food and beverages and other sources to obtain gross revenues. Departmental, unallocated, and fixed expenses are subtracted from gross revenues to obtain gross profit. Percentage reductions are applied for reserves for replacements, management and franchise fees, and return of furniture, fixtures, and equipment to yield Net Operating Income (NOI) to real and personal property. Finally, an estimate is made of net income attributable to personal property, which is subtracted from total NOI to yield NOI attributable to real property. Applying an appropriate capitalization rate (loaded for real estate taxes) results in estimated real property value.

While necessarily detailed, this process (often termed the Rushmore method) is well accepted and typical of that used in other jurisdictions. A crucial step in the process is determination of the capitalization rate. To this end, RPAD analyzes hotel sales in the District (there were 11 usable sales in 2015) and reviews capitalization rates reported in industry sources, including PWC-Korpacz, CBRE Group, Inc. and Real Estate Research Corporation. Capitalization rates used for TY 2017 ranged from 6.8% for ultra-luxury hotels (there were seven in the District) to 7.75% for limited service and economy hotels/motels. They seem well supported by available sales and industry benchmarks.

We conclude that RPAD's valuation procedures follow industry accepted practice and comport well with information obtained from I&E statements.

Valuation of Apartments

At the time of AGJD's 2012 report, apartment properties were already being successfully valued based on income tables. Appraisers can enter 40 different rental rates based on number of bedrooms, baths, and unit size. Rents can further vary by each of the nine market areas used for commercial properties. Table 1 shows 2017 rents developed for one-bedroom apartments in five of the nine market areas. Additional rates apply to efficiency (bachelor), 2-bedroom, 3-bedroom, 4-bedroom, and 5-bedroom units, as well as to the other four market areas. As with other property types, appraisers may apply additional adjustments for relative location and tenant appeal.

Table 1: Illustration of Apartment Valuation Parameters

		Area				
		Capitol Hill	**Central Business District**	**Georgetown**	**Northeast**	**Southwest**
Vacancy Ratio (Percent)		5	8	4	7	8
Expense Ratio (Percent)		40	39	37	54	60
Monthly rent (Dollars)						
Code	**Description**					
1101	1BR, 1BA	1,530	2,345	2,100	1,100	870
1102	1BR, 1BA, SM	1,380	2,110	1,890	980	780
1103	1BR, 1BA, LG	1,680	2,580	2,310	1,210	960
1111	1BR+DEN, 1BA	1,825	2,690	2,125	1,270	1,200

Note: ‘Code’ is unit type code, a described. ‘BR’ is number of bedrooms; ‘BA’ is number of bathrooms.

As Table 1 shows, vacancy and expense ratios both vary by market area. Expense rates include all expenses except property taxes and include reserves for replacements. As with other commercial properties, appraisers may assign additional adjustments for relatively poor, fair, good, or excellent properties.

Capitalization rates vary between low-rise and high-rise apartments within each of three geographic areas: Southeast, Northeast, and “other” (Central Business District, Georgetown, and Uptown West). For TY 2017, cap rates ranged from 4.9% for high-rise buildings in the "other" area to 6.7% for low-rise buildings in the Southeast. Again, additional modifiers may be applied based on relative desirability.

Subsidized or "non-market" apartments can be valued in the CAMA income tables by overriding gross rent based on what is reported on I&E submissions. The tables provide separate rent, vacancy, and expense adjustments for non-market apartments. Alternatively (as is current practice), appraisers can value non-market apartments outside the CAMA system and enter override values.

The apartment valuation methodology serves the District well. While we have no recommendations for specific changes, there are a few areas in which further improvements might be possible.

14. **We recommend that RPAD evaluate whether improvements in rent table structures, market areas, and the treatment of reserves for replacement are feasible.**

    We wonder whether the 40 distinctions in rent rate tables are productive; that is, whether the required data is fully known and consistently applied. By way of contrast, we note that the apartment I&E mailer only provides for six unit types (efficiency, 1-bedroom, 2-bedroom, 2-bedroom + den, 3-bedroom, and 3-bedroom +den) plus an “Other (list)" category. Although we do not recommend that income rent tables be similarly collapsed,

we think it would be helpful to discuss the issue and either affirm the present categories or simplify them going forward.

As with other categories of commercial property, consideration should also be given to whether the nine market areas originally based on CoStar office submarkets are still relevant to apartments or whether the residential neighborhoods assigned to apartment market areas should now be refined (we do not suggest that this is necessarily the case—only that it be reviewed and considered).

During the course of our interviews and documentation review, we encountered different descriptions of how reserves for replacement are handled. While the CAMA income system provides a means of accounting for them separately, they can also be built into standard expense ratios in the income tables. Decisions should be made on how reserves for replacement will be handled for each property type: apartments, office buildings, and retail properties. Documentation should reflect, and appraisers be aware of and consistently follow, that policy.

15. **We recommend that RPAD strive to keep documentation of appraisal procedures and practices current and consistent across property types when appropriate.**

    Updating appraisal documentation is always a challenge as valuation processes are improved. Although both the ARM and Employee Handbook provide relevant, well-written explanations and instructions, we do recommend that a conscious effort be made to keep them current and consistent. While the current Employee Handbook reflects the incorporation of office buildings into the Vision income tables for TY 2017, the ARM are written specifically for apartments and do not appear to have been similarly updated.

RPTA Ratio Studies

Ratio studies, the pre-eminent measure of valuation accuracy in assessment performance, are conducted and published annually by the RPTA. Since AGJD's 2012 review, they have been published in a freestanding report, and a version of each of them is also included as part of the annual ARM, both of which are freely available from the official Internet site. An important improvement in the separately published ratio studies is that they now include not only single-parcel sales, as previously, but also sales involving multiple parcels. Multi-parcel sales occur frequently for large commercial transactions, making their omission a potential source of distortion for ratio studies. When they have occurred, an informative ratio can be calculated by dividing the sum of the constituent parcels' assessments by the transaction price for the economic unit. This improvement in ratio study design, following a recommendation in the prior evaluation, improves the utility of the ratio study by removing a source of potential distortion resulting from excluding some high-value properties from the study. The process of including the multiple-parcel sales is somewhat time-consuming, which explains their omission from the ARM version of the studies—a minor weakness. Tying parcels that comprise a single economic unit together into economic unit identifiers would further improve the identification and use of multiple parcel sales.

The studies include generally appropriate explanatory material, and compare the performance achieved by the office to internationally recognized standards promulgated by the IAAO. Further, RPTA makes available (at a reasonable cost) a so-called "Pre-Compact Disk – Read-Only Optical Memory (CD-ROM)" disk containing all the data necessary for interested persons to conduct their own studies of assessment performance.

However, some opportunity for further improvement exists in the current ratio studies. The ratios being reported summarize the results of dividing assessments by sale prices that were mostly known to appraisers at the time the assessments were finalized (that is, before the 2015 notice deadline for the 2016 study). The ratios, thus, are open to what is colloquially known as "sales chasing"—treating recently sold properties differently than properties that were not sold recently, thereby presenting a distorted picture of the assessment performance on the totality of properties, sold and unsold. Nothing extraordinary in the mechanisms employed in the appraisals of such properties as described above was noted during the evaluation that would highlight the need to be wary of this possibility, nor did any persuasive evidence of it arise in tests for it using small samples of post-assessment sales. Nevertheless, given the lag with which reports are generated on prior assessments, it would seem advisable to test formally for the possibility with adequately sized post-assessment sales.

16. We recommend that RPAD begin reporting ratio study statistics with respect to assessed values on the roll at the time of sale rather than, or in addition to, assessed values anticipated to be enrolled later, as are currently reported.

As is normal, the number of commercial sales is smaller than the number of residential sales. Thus, a problem arises in RPAD's applying a stratification system appropriate for residential property to commercial property. The available commercial property sales sample sizes in each residential neighborhood are rarely adequate to permit conclusions about whether an acceptable job is being done. This could be resolved in several ways. Two obvious ones are to stratify on the basis of types of commercial properties rather than small residential geographic areas; and to aggregate neighborhoods into a smaller number of neighborhood groups or economic areas that reflect the realities of commercial real estate markets, with the goal of preserving substantial economic homogeneity within each group. Although residential neighborhoods are grouped for appraisal purposes, such areas are not used for ratio-study purposes, nor are ratio study results reported by property types. Both would display data more usefully, would conform better to standards, and would be reasonably easy to implement.

17. We recommend that RPAD transition to computing and reporting ratio statistics by property type and market area.

Another problem is that ratio study results are reported without revealing that the validated sales have been trimmed of so-called "outliers" and "extremes," leaving the reader to conclude that the report represents the results obtained from all sales judged to have been valid indicators of market value (i.e., to have been unaffected by the inclusion of family transfers, foreclosure, excessive personal property, etc.). In fact, the reported results would have been substantially worse if all sales that assessors affirmatively indicated to be valid indicators of market value were included in the calculations. Trimming extremely high and low ratios is permitted, but not required by the IAAO standard, which has the following to say on the subject:

> The preferred method of handling an outlier ratio is to subject it to additional scrutiny to determine whether the sale is a non-market transaction or contains an error in fact. If an error can be corrected (for example, data entry), the property should be left in the sample. If the error cannot be corrected or inclusion of the identified outlier would reduce sample representativeness, the sale should be excluded... However, trimming of outliers using arbitrary limits, for example, eliminating all ratios less than 50 percent or greater than 150 percent, tends to distort results and should not be employed... If a trimming method has been used to reject ratios from the sample, this fact must be stated in the resulting statistical analysis... It is also appropriate to set maximum trimming limits. For small samples, no more than 10 percent (20 percent in the most extreme cases) of the ratios should be removed. For larger samples, this threshold can be lowered to 5 to 10 percent depending on the distribution of the ratios and the degree to which sales have been screened or validated. Trim limits should be developed in consideration of the extent of sales verification... Ratio study reports or accompanying documentation should clearly state the basis for excluding outlier ratios. Statistics calculated from trimmed distributions, obviously, cannot be compared to those from untrimmed distributions or interpreted in the same way.[1]

For calendar year 2014 sales, which are destined for use in the 2016 ratio study, validated single-parcel commercial sales numbered 319, which were subsequently trimmed to 300, for a loss of about 6 percent. This is a substantial improvement over the trimmed fraction noted in the 2012 review, which was about 15

[1] Standard on Ratio Studies, IAAO, 2013, pages 53-54.

percent. Still, the procedure employed is specifically criticized in the IAAO standard. The trimming was done by excluding sales with ratios more than 60 percent lower or higher than the target ratio, just as IAAO in the quote above says should not be done, although in that example the percentage used was 50 percent, not 60 percent.

18. **We recommend that RPAD begin to adopt a standard-accepted trimming rule rather than the arbitrary ratio boundaries of 0.40 to 1.60 presently employed.**

An interesting issue in sales ratio analysis is the treatment of properties for which data were changed after sale. Appraisers routinely inspect sold properties and make appropriate corrections for data errors. They also routinely inspect building permits and make updates to reflect changes in use, renovations, additions, and the like. As long as data are correct as of the time of sale, a sale that meets the requirements of a valid, arm's-length transfer can and should be used in modeling. However, should these sales be included in published ratio studies intended to portray how accurately all properties (both sold and unsold) are appraised? Assume that a property sold in July 2015 and, on inspection, the appraiser changed tenant appeal to a more accurate rating that would produce appraisals more in line with price paid. While the correction is welcome for appraisal analysis and valuation, should the sale be used in official ratio studies? Or do such data corrections potentially distort those studies because changes made as a result of sales research are, by definition, limited only to sold (not unsold) properties? This is not an easily answered question.

The CAMA database used by the District includes provision for two sale validation codes. In other jurisdictions the two codes are used to record separate validation determinations of sales qualified to be used for modeling and for ratio-study purposes. In the cases of the above July 2015 sale, the sale could be coded as usable for appraisal analysis but unusable for ratio analysis because data were changed after sale. Although the District does not presently use the second validation code, its presence would make implementing a second set of acceptance codes easy. Alternatively, properties for which data were changed after sale could be automatically excluded from official ratio statistics, assuming that the CAMA system is able to successfully date stamp data changes.

While current ratio studies report standard metrics, most notably the median and coefficient of dispersion (COD), the utility of the reports could be enhanced by including additional analytics, particularly confidence limits and the coefficient of price-related bias (PRB), which is superior to the presently reported price-related differential (PRD). Selected graphs could be useful in illustrating the distribution of ratios and the consistency of appraisal levels among property types and value ranges. It would also be helpful to include indications of whether relevant performance thresholds have or have not been met for such key statistics as the median, COD, and PRB.

19. **We recommend that RPAD take steps to compute and, when appropriate, publish confidence intervals for important statistics. This would enable readers to judge whether an apparent success or failure is more likely to reflect a fluke of small samples than a real problem.**

20. **We recommend that RPAD begin to compute and, when appropriate, publish PRBs.**

The PRB is recognized to be a superior test of vertical inequities than the traditional PRD. Especially when sample sizes are small, the PRD is known to indicate falsely regressive assessments.

21. **We recommend that RPAD begin to produce statistical graphics to facilitate quick comprehension of patterns not immediately observable from numeric tables.**

Communications

As is typical, RPAD communicates regularly with several audiences. It does so through, and on behalf of, the OTR, a division of the OCFO. It uses the usual channels: face-to-face communications with taxpayers and other stakeholders, the website, published materials, etc.

The Code (§ 47-820, § 47-823, and § 47-824) sets out requirements related to the publication and inspection of rolls and assessment notices. Notably, it requires the publication of ratio studies. We are aware of no deficiencies related to legal requirements.

Professional standards for evaluating communication efforts are general in nature. USPAP, in Standard 6, Mass Appraisal, states that "an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and *communicate credible* (emphasis supplied) mass appraisals." Accordingly, our focus is on communications related to valuation methods and values and not on property tax relief measures and the like. The IAAO *Standard on Public Relations* contains some relevant recommendations, which we have taken into consideration. In general, however, we relied mostly on a comparison between the information available on the OTR 's website (http://otr.cfo.dc.gov/service/real-property-taxpayers) and the information available on the websites of other major urban assessment districts, as this comparison provides a more concrete basis for evaluation.

In general, the OTR website compares favorably. As expected, it provides well-written descriptions of the basics of assessment. It has a video that explains basic assessment and taxation matters. It provides access to assessment data for specific properties and access to sales information. Searches can be made by SSL and by address. Properties can be mapped. OTR has begun to enable online transactions, such as paying taxes, filing required I&E statements, and filing first-level appeals.

For the purposes of this review, the most relevant feature of the website is the link to "assessment materials and reports." There one can find by year a document entitled ARM and a report of a sales ratio study made by RPAD. Few assessment districts publish sales ratio study reports and few provide as much detail as RPAD's reports.

The audience for the ARM report nominally is the appraisal staff of RPAD. However, it is written at a level that would be accessible to interested members of the public with some background in real estate appraisal and the relevant mathematics and an interest in the District's appraisal procedures. Some significant additions were made to the 2017 edition, namely a letter from the chief appraiser containing highlights of RPAD developments and also a description of residential valuation procedures based on models developed from an analysis of sales. The report continued to provide a walkthrough of the CAMA system's market-adjusted cost approach for residential and commercial property. ARM also contains a basic introduction to the CAMA system's income approach application. There is no discussion of recent improvements in income approach appraisal procedures, however. ARM also contains the previously mentioned sales ratio study report and other statistics of interest, such as changes in total assessments by neighborhood for the year.

In summary, however, the ARM only represents the kernel of the mass appraisal report envisaged in USPAP. What is missing from the ARM is a report that blends procedural narratives with statistical data on valuation parameters (such as rents, expense ratios, and capitalization rates) and provides public evidence of the credibility of assessments.

22. **We recommend that RPTA produce a USPAP-compliant mass appraisal report based on the ARM.**

    The report would blend procedural narratives with statistical data on valuation parameters such as rents, expense ratios, and capitalization rates. The aim is to make public more evidence of the credibility of assessments. The recent additions related to residential and residential land valuation provide a template for changes that would be desirable in the discussion of commercial valuation procedures.

Appeals Defense

The prior RPTA evaluation touched on the defense of commercial property appeals at the second level, i.e., following the internal review with RPAD and preceding any potential recourse to the judicial system.

At that time the responsible appeal body was in transition from BRPAA to RPTAC, and the matter was of some notoriety. That notoriety has substantially abated in the interim. The large percentage reductions in assessed property value for a few high-value properties noted in the past are now largely gone. Also, with the exception of TY 2015, discussed further below, both the percentage of properties requiring reductions and the average percentage reductions in value for those that are given reductions have fallen substantially, as shown in Table 2.

Table 2: Patterns of Appeals for Commercial Properties and Their Results at Level 2 (Board of Review or Tax Appeals Commission), by Tax Year, 2008-2016

Tax Year	Number of Level 2 Appeals	Overall Average Percentage Reduction	Number of Appeals that Obtained a Reduction	Average Percentage Reduction if Reduced	Percentage of Appeals Obtaining a Reduction
2008	2,311	9.25	1,019	21.18	44
2009	3,064	11.32	2,129	19.64	69
2010	4,441	5.54	1,921	13.06	43
2011	2,633	6.64	1,528	14.92	58
2012	2,366	7.45	1,146	16.57	48
2013	2,431	4.48	833	15.70	34
2014	2,393	3.57	779	11.49	33
2015	3,606	5.75	1,829	12.01	51
2016	3,302	2.34	709	10.92	21

Source: Statistics calculated based on data extracted from tables Appeals and BRPAA in RPTA's appeals tracking database. Appeals that resulted in increases or in reductions to zero have been excluded in calculating the above statistics.

In Figures 1 through 5, it should be noted that the plotted points represent the pre-appeal assessed value on the horizontal axis and the post-appeal value on the vertical axis. Thus, parcels that lie on the diagonal line were unchanged on appeal, and those that plot below the line obtained a reduction on appeal in the amount of their vertical distances from the diagonal. Note that the logarithmic axes that make it possible to fit the huge range of data into a manageable plot also make precise measurement of such reductions on the graph a little difficult. The parcels plotted atop the horizontal axis are those that were exempted upon appeal, and those above the diagonal are properties whose assessments were raised upon appeal. In comparison with the equivalent plots from the 2012 review, these figures reveal a diminished tendency for the District's highest valued properties to have great reductions from their original assessments.

The anomalous results for TY 2015 observable in Table 2 and Table 3 are dominated by appeals of multi-family residential properties, 80% of which are coded as investor type vertical condominiums (buildings that were converted to condominiums but the units did not sell and are therefore being rented rather than owner-occupied).

Figure 1: Scatter Plot of Values after Appeal to Initially Proposed Value: Tax Year 2012

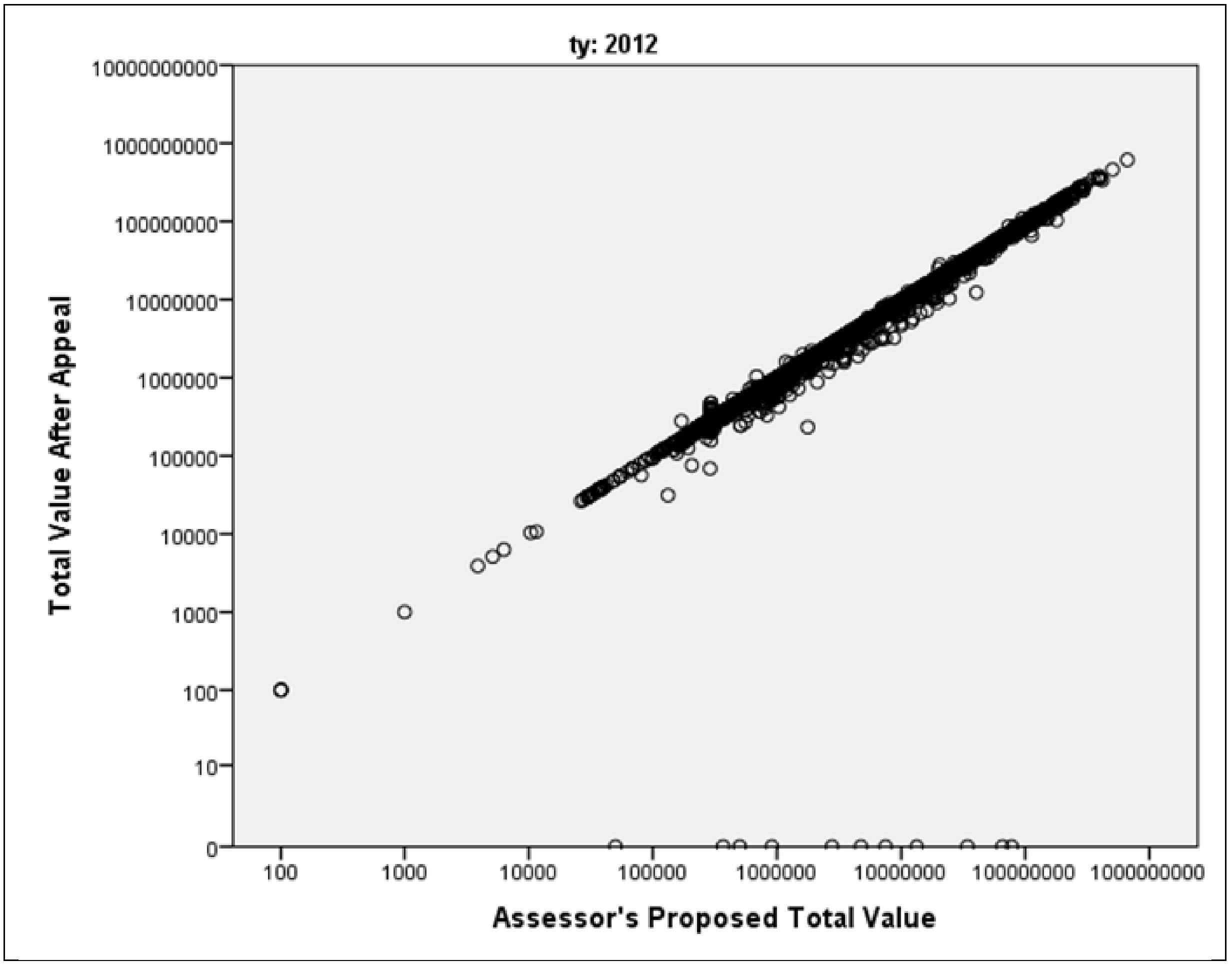


Figure 2: Scatter Plot of Values after Appeal to Initially Proposed Value: Tax Year 2013

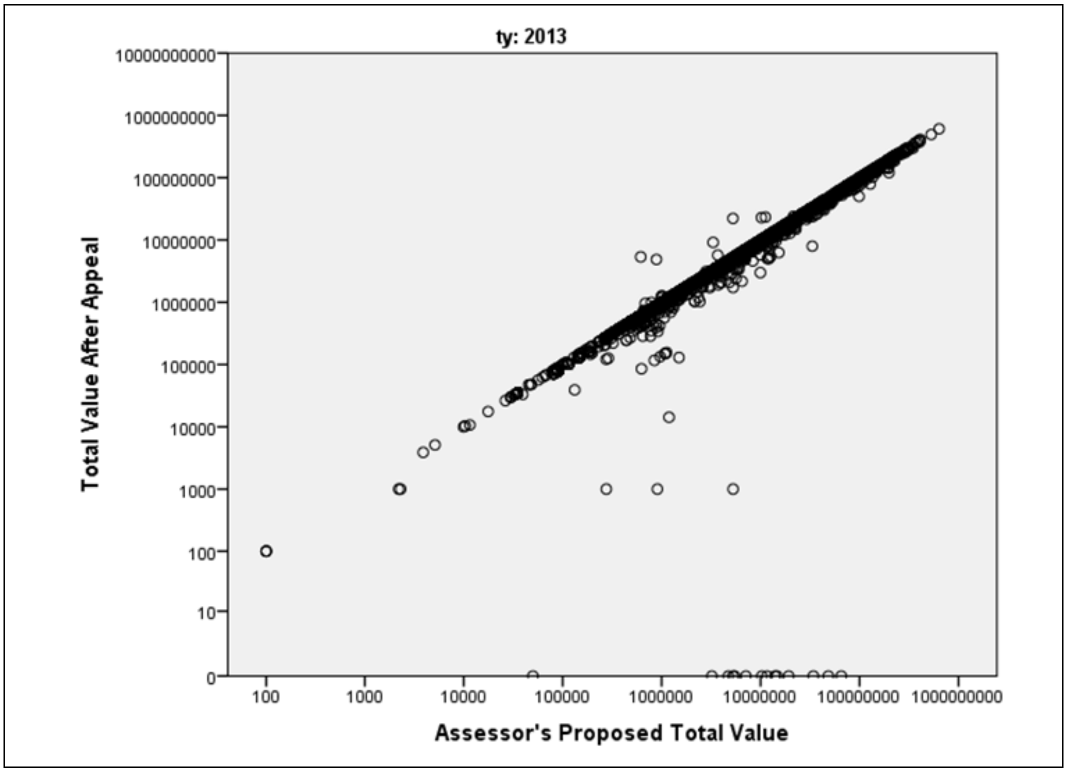


Figure 3: Scatter Plot of Values after Appeal to Initially Proposed Value: Tax Year 2014

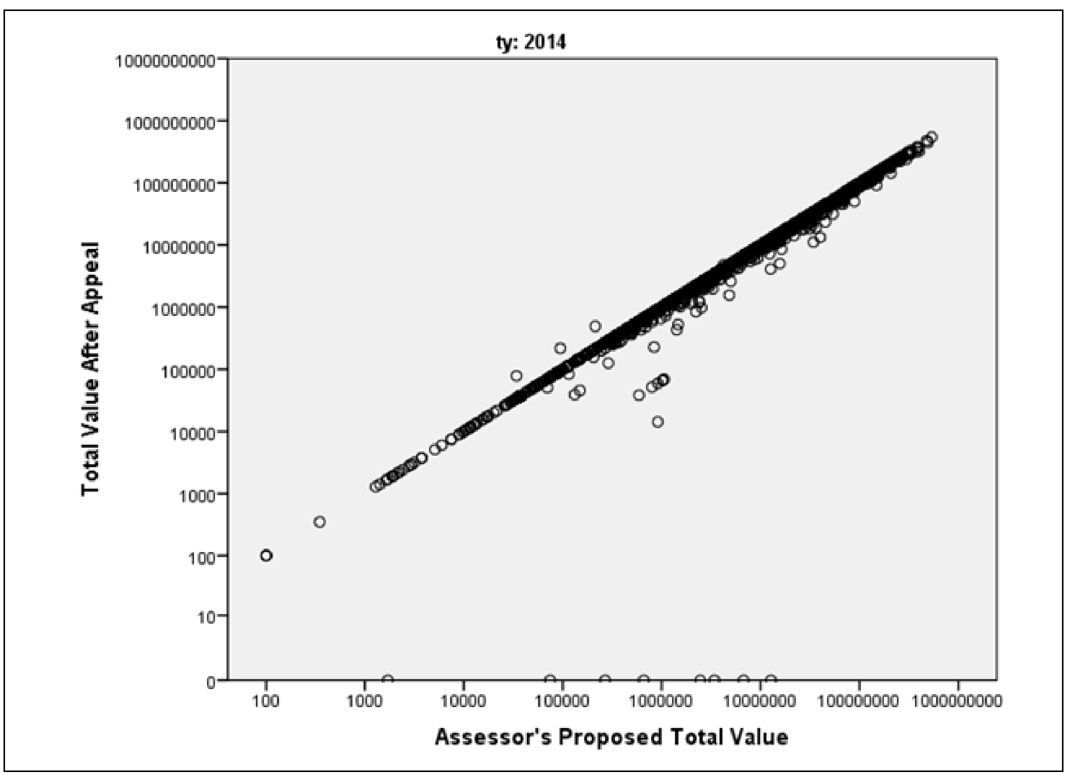


Figure 4: Scatter Plot of Values after Appeal to Initially Proposed Value: Tax Year 2015

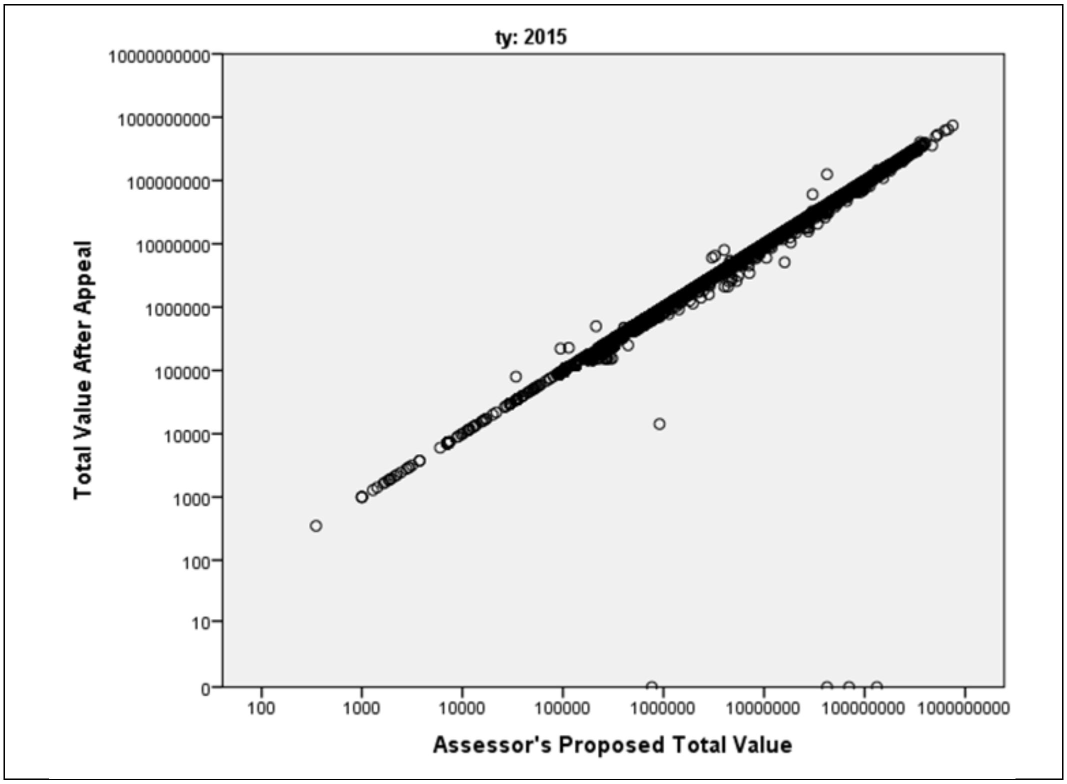


Figure 5: Scatter Plot of Values after Appeal to Initially Proposed Value: Tax Year 2016

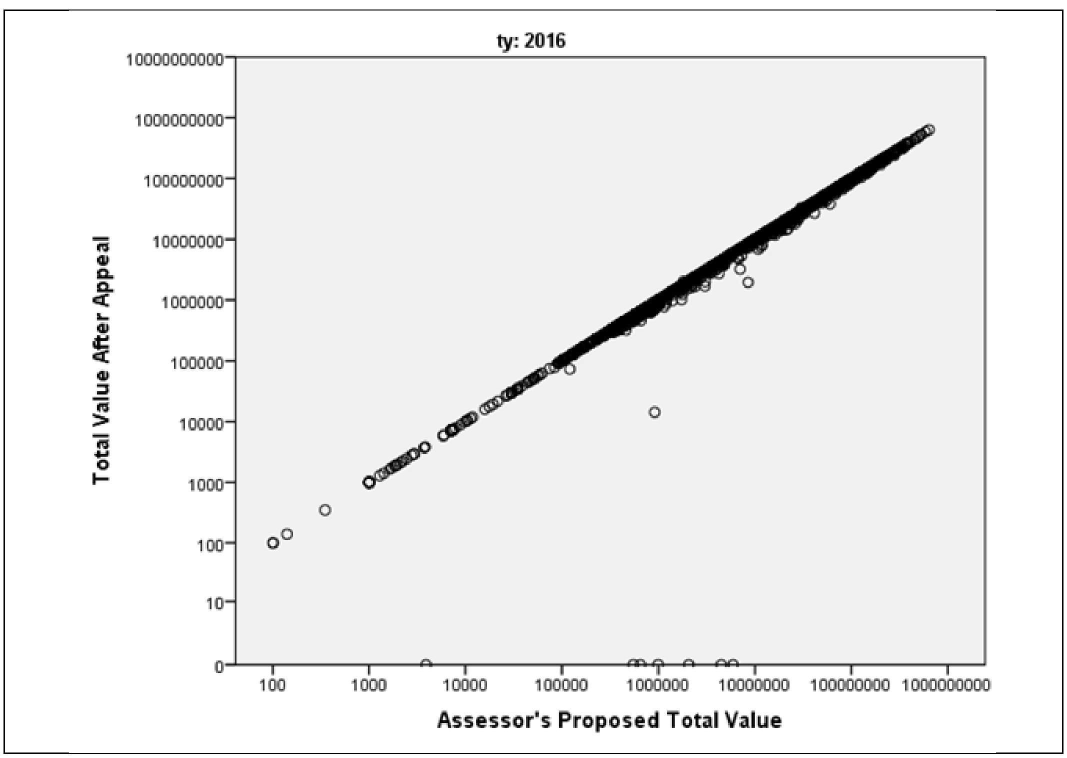


Table 3: Level 2 Appeal Reductions by Use Type and Tax Year since the 2012 Review

Tax Year	Use Group	BRPAA/RPTAC Reduction Percent Category											Total
		<5	5-10	10-15	15-20	20-25	25-30	30-35	35-40	40-45	45-50	>50	
2013	Residential Multi-Family	5	58	144	12	9	5	22	1	3	2	10	271
	Residential Transient	6	13	3	5	4	1	0	1	0	0	0	33
	Commercial Retail	8	16	11	5	3	11	0	2	0	2	3	61
	Commercial Office	61	109	43	42	15	9	4	2	0	1	0	286
	Commercial Specific Purpose	1	18	12	4	4	2	1	2	0	1	3	48
	Industrial	0	13	8	5	4	0	0	0	1	0	2	33
	Special Purpose	1	2	3	1	1	2	1	0	0	0	4	15
	Vacant	0	11	2	8	6	0	2	0	3	0	5	37
	Total	**82**	**240**	**226**	**82**	**46**	**30**	**30**	**8**	**7**	**6**	**27**	**784**
2014	Nonconforming Use	0	0	0	0	1	0	0	0	0	0	0	1
	Residential Single Family	0	1	0	0	0	0	0	0	0	0	0	1
	Residential Multi-Family	203	19	9	18	15	2	2	0	1	0	7	276
	Residential Transient	6	22	6	6	5	5	0	0	2	0	0	52
	Commercial Retail	2	12	4	4	4	6	2	0	2	4	3	43
	Commercial Office	75	128	59	19	9	10	7	2	0	1	1	311
	Commercial Specific Purpose	3	5	3	1	3	3	1	0	0	0	1	20
	Industrial	2	2	5	4	1	0	0	0	0	0	0	14
	Special Purpose	1	3	3	1	2	1	0	0	0	0	1	12
	Vacant	0	3	1	2	5	0	0	0	1	0	6	18
	Total	**292**	**195**	**90**	**55**	**45**	**27**	**12**	**2**	**6**	**5**	**19**	**748**
2015	Residential Single Family	0	0	0	1	0	0	0	0	0	0	0	1
	Residential Multi-Family	7	716	177	275	9	164	4	2	6	1	1	1362
	Residential Transient	11	15	10	4	3	1	0	1	1	0	0	46
	Commercial Retail	0	20	4	6	1	1	1	1	1	0	2	37
	Commercial Office	74	125	63	29	11	7	1	3	1	0	0	314
	Commercial Specific Purpose	1	15	3	0	1	0	0	0	0	0	2	22
	Industrial	1	2	5	2	0	2	0	0	0	0	1	13
	Special Purpose	0	1	5	1	0	2	1	0	0	0	0	10
	Vacant	0	6	0	1	0	0	0	0	1	0	0	8
	Total	**94**	**900**	**267**	**319**	**25**	**177**	**7**	**7**	**10**	**1**	**6**	**1813**
2016	Residential Multi-Family	9	30	145	85	5	1	0	0	1		0	276
	Residential Transient	2	19	6	2	1	0	0	0	0		0	30
	Commercial Retail	2	14	7	2	3	1	0	3	0		2	34
	Commercial Office	130	121	31	21	5	3	2	0	0		0	313
	Commercial Specific Purpose	3	4	4	0	0	1	6	0	1		1	20
	Industrial	0	4	2	4	4	3	2	0	0		0	19
	Special Purpose	0	0	2	1	1	0	0	0	0		0	4
	Vacant	0	2	1	1	0	0	2	2	0		0	8
	Total	**146**	**194**	**198**	**116**	**19**	**9**	**12**	**5**	**2**		**3**	**704**

Appeals beyond RPTAC to the judicial system have generated a troublingly high backlog of approximately 2,000 cases, especially in comparison to the rate at which such cases are tried each year, which is in the single digits. Also troublesome is the slow rate at which opinions are issued; decisions can remain unavailable for years after the trial. The resulting environment produces little guidance on the law coupled with intense pressure to settle rather than try cases. As was noted in recommendation 18 of the 2012 review, the caseload for the relevant RPTA personnel is problematic. Management is researching the possibility that the procurement of a more capable appeals management system may minimize the need to augment staff in this area, as had been recommended in the 2012 review. The specifications included in the request for proposals to provide such a system seem reasonable. In the meantime, RPTA utilizes a stop-gap litigation tracking system built in house. Although this not optimal, it should help displace multiple clerical levels of effort.

The accuracy of commercial assessments in the District, as measured by post-appeal valuations, is reasonably good and has improved over the period since the 2012 review. The burgeoning litigation backlog of level-3 (i.e., judicial) appeals is troubling both in view of the accumulated potential liability for refund requirements, plus tax base loss and in view of the demands associated with managing the process. It also is troublesome that from a game-theory perspective the incentives are unbalanced. Appellants have a low-cost right to appeal and a non-trivial likelihood of a reward in the form of an assessment reduction, especially in the event of split-the-difference mediation or negotiated settlements. RPTA has very limited options for counter-strategies. A rebalancing of incentives, either of an economic or a public-shaming nature, may eventually be required to remedy the situation.

23. We recommend that efforts continue to improve how RPTA defends assessments under appeal.

This can be done by:

- **Continuing to monitor the quality of its valuation performance as it already does via its appeals tracking system, recognizing that a superior measure of performance is found in assessment to sales price ratio studies;**

- **Augmenting its efforts to manage its appeal/litigation management system, with attention not only to monitoring conditional liabilities and calendar related workflows, but also to the management of related documents and professional services; and**

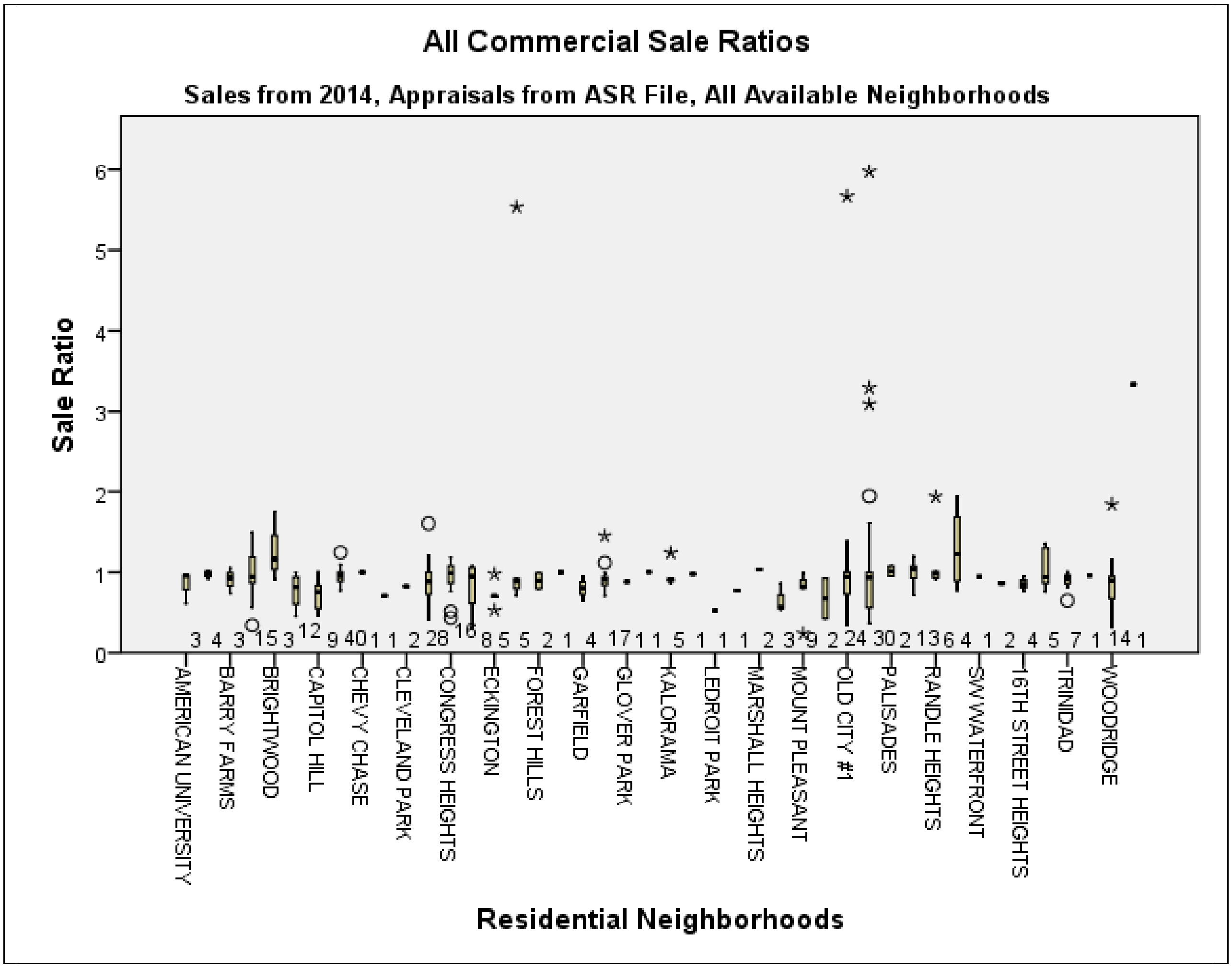
- **Considering whether to advocate for a redress in the appeal incentives from a game-theoretic perspective, either by advocating for an increase in the cost to property owners of filing an appeal, perhaps on a recurring basis to spur their prompt resolution, or by adopting social pressures rather than, or in addition to, economic incentives to address the situation.**

Evaluator's Analyses of Assessment Performance via Ratio Studies

As noted, RPTA presently prepares its assessment ratio reports using a statistical software system popularly used in assessment administration, and the addition of the capabilities recommended above could be programmed into that system. Using the data underlying the District's reports, we illustrate some of our recommendations in the following figures and tables.

Figure 6 and Table 4 summarize ratio study statistics using all of the qualified commercial sales from calendar year 2014 and their related assessments for TY 2016; no trimming of these data has been done. As can be seen, the greatest discrepancies between assessments and sale price are on the order of a factor of 6, far better than the orders of magnitude noted in the 2012 review-- clearly sales qualification and data entry are being done more accurately. Nevertheless, such sizable discrepancies cannot be taken as indicative of actual performance, but rather reflect problems with sales reporting that need to be removed from the sample to increase its representativeness. As we recommended, this is best done following the guidance in the IAAO standard, which is based on interquartile ranges.

Figure 6: Box Plot of Sales Ratios by Neighborhoods



Note: Data not trimmed here; the following figures will use data trimmed two different ways.

Table 4: Ratio Statistics for Assessed Values/Sale Prices from 2014

Neighborhood	Sale Count	Median	95% Confidence Interval for Median		Price Related Differential	Coefficient of Dispersion
			Lower Bound	Upper Bound		
AMERICAN UNIVERSITY	3	.958	.617	.966	.982	.121
ANACOSTIA	4	.993	.919	1.014	.996	.029
BARRY FARMS	3	.930	.738	1.055	.989	.114
BRENTWOOD	15	.945	.857	1.276	.975	.247
BRIGHTWOOD	3	1.166	.911	1.755	1.092	.241
BROOKLAND	12	.819	.506	.941	.982	.202
CAPITOL HILL	9	.757	.482	.940	.967	.198
CENTRAL	40	.955	.919	.990	.986	.081
CHEVY CHASE	1	.999			1.000	.000
CHILLUM	1	.711			1.000	.000
CLEVELAND PARK	2	.829	.818	.839	1.003	.012
COLUMBIA HEIGHTS	28	.888	.796	1.000	1.257	.198
CONGRESS HEIGHTS	16	.991	.778	1.084	.944	.146
DEANWOOD	8	.950	.310	1.079	1.069	.222
ECKINGTON	5	.709	.530	.978	.899	.132
FOGGY BOTTOM	5	.892	.711	5.536	.368	1.108
FOREST HILLS	2	.895	.798	.992	.912	.108
FORT DUPONT PARK	1	1.000			1.000	.000
GARFIELD	4	.808	.650	.950	.910	.095
GEORGETOWN	17	.912	.843	.942	.989	.112
GLOVER PARK	1	.885			1.000	.000
HILLCREST	1	1.001			1.000	.000
KALORAMA	5	.913	.871	1.239	1.024	.085
KENT	1	.978			1.000	.000
LEDROIT PARK	1	.529			1.000	.000
LILY PONDS	1	.774			1.000	.000
MARSHALL HEIGHTS	2	1.036	1.035	1.038	1.000	.001
MICHIGAN PARK	3	.571	.543	.868	1.092	.189
MOUNT PLEASANT	9	.826	.806	.967	1.025	.149
N. CLEVELAND PARK	2	.677	.428	.926	1.312	.368
OLD CITY #1	24	.943	.732	.998	.937	.379
OLD CITY #2	30	.935	.617	1.000	.995	.628
PALISADES	2	1.016	.953	1.078	.960	.061
PETWORTH	13	1.038	.926	1.168	.971	.099
RANDLE HEIGHTS	6	.985	.917	1.937	.742	.192
NOMA	4	1.224	.776	1.936	1.348	.323
SW WATERFRONT	1	.946			1.000	.000
SHEPHERD PARK	2	.867	.856	.877	1.004	.013
16TH STREET HEIGHTS	4	.856	.770	.952	1.009	.054
TAKOMA PARK	5	.941	.762	1.358	1.246	.219
TRINIDAD	7	.930	.652	1.004	.988	.085
WAKEFIELD	1	.959			1.000	.000
WOODRIDGE	14	.896	.503	1.090	1.304	.267
undefined	1	3.333			1.000	.000
Overall	**319**	**.930**	**.915**	**.942**	**.990**	**.250**

Tables 5 through 8 illustrate the results of trimming the data based on the boundaries recommended in the IAAO standard. These boundaries are defined in terms of the difference between the 25th and 75th percentiles of the ratios, the interquartile range (IQR) and extend three IQRs below the 25th percentile and 3 IQRs above the 75th percentile. They can be calculated either based on the raw ratios, as done in Tables 5 and 6, and Figures 7 and 8 or on the basis of the logarithms of the ratios, as done in Tables 7 and 8, and Figures 9 and 10. The advantage of using logarithms is that extreme low ratios, say 10 percent of the median, are more likely to be trimmed, since they are treated as being as far from a median of 1.0 on the low side as a ratio of 10.0 is on the high side. Using the raw ratios rather than their logs as the basis for IQR-based trimming makes low-side outliers much more likely to be retained. Log-based IQR trimming is preferable. Using it, the total pool of retained ratios dropped from 319 to 307, while raw-ratio trimming retained 308 rather than the 300 used in the official report.

Table 5: Ratio Statistics for Assessed Values/Sale Prices from 2014, 3 IQR Extremes Trimmed Naively

Group	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Coef-ficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
Non-Conforming Use	1	.96			1.00	.00						
Residential Multi-Family	74	.96	.93	1.00	1.07	.12	26.5	-11.0	63.9	P	P	P
Residential Transient	5	.93	.62	1.43	.93	.22	-112.7	-480.9	255.5	P	P	P
Retail	93	.84	.74	.91	.92	.20	-56.8	-120.8	7.2	?	P	P
Office	72	.93	.92	.97	.95	.11	-19.3	-43.8	5.2	?	P	P
Special Commercial	27	.91	.77	1.00	1.11	.26	123.8	-102.7	350.4	P	F	P
Industrial	22	.92	.86	1.10	1.00	.20	60.9	-145.1	266.9	P	P	P
Special Purpose	14	.99	.76	1.08	1.11	.20	54.3	-170.3	278.9	P	F	P
Overall	**308**	**.93**	**.91**	**.94**	**.95**	**.17**	**0.9**	**-0.2**	**2.0**	**?**	**P**	**P**

Table 6: Ratio Statistics for Assessed Values/Sale Prices from 2014, 3IQR Extremes Trimmed Naively

Neighborhood	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Co-efficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
AMERICAN UNIVERSITY	3	.96	.617	.966	.982	.121	-1.3	-143.5	140.8			
ANACOSTIA	4	.99	.92	1.01	1.00	.03	1.1	-14.7	16.9			
BARRY FARMS	3	.93	.74	1.06	.99	.11	62.8	-17.0	142.7			
BRENTWOOD	15	.94	.86	1.28	.98	.25	-1.6	-16.9	13.7			
BRIGHTWOOD	2	1.04	.91	1.17	.90	.12	5.6	5.6	5.6			
BROOKLAND	12	.82	.51	.94	.98	.20	1.9	-8.6	12.5			
CAPITOL HILL	9	.76	.48	.94	.97	.20	11.0	-8.9	30.9			
CENTRAL	40	.96	.92	.99	.99	.08	-0.1	-1.2	1.0	?	P	P
CHEVY CHASE	1	1.00			1.00	.00						
CHILLUM	1	.71			1.00	.00						
CLEVELAND PARK	2	.83	.82	.84	1.00	.01	-3.8	-3.8	-3.8			
COLUMBIA HEIGHTS	28	.89	.80	1.00	1.26	.20	-6.4	-11.2	-1.6	P	P	P
CONGRESS HEIGHTS	16	.99	.78	1.08	.94	.15	1.8	-4.7	8.3			
DEANWOOD	8	.95	.31	1.08	1.07	.22	6.3	-20.8	33.4			
ECKINGTON	5	.71	.53	.98	.90	.13	16.0	-8.7	40.7			
FOGGY BOTTOM	4	.85	.71	.92	1.02	.09	-3.8	-41.1	33.4			
FOREST HILLS	2	.90	.80	.99	.91	.11	5.1	5.1	5.1			
FORT DUPONT PARK	1	1.00			1.00	.00						
GARFIELD	4	.81	.65	.95	.91	.10	2.0	-13.3	17.4			
GEORGETOWN	17	.91	.84	.94	.99	.11	-0.5	-5.7	4.7			
GLOVER PARK	1	.89			1.00	.00						
HILLCREST	1	1.00			1.00	.00						
KALORAMA	5	.91	.87	1.24	1.02	.09	1.3	-16.1	18.8			
KENT	1	.98			1.00	.00						
LEDROIT PARK	1	.53			1.00	.00						
LILY PONDS	1	.77			1.00	.00						
MARSHALL HEIGHTS	2	1.04	1.03	1.04	1.00	.00	1.5	1.5	1.5			
MICHIGAN PARK	3	.57	.54	.87	1.09	.19	-10.5	-303.8	282.8			
MOUNT PLEASANT	9	.83	.81	.97	1.02	.15	-0.8	-17.9	16.3			
N. CLEVELAND PARK	2	.68	.43	.93	1.31	.37	-43.8	-43.8	-43.8			

Neighborhood	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Co-efficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
OLD CITY #1	23	.93	.73	.99	1.01	.18	-0.8	-8.8	7.1	?	P	P
OLD CITY #2	26	.76	.57	1.00	.90	.34	8.5	-1.1	18.2	?	F	P
PALISADES	2	1.02	.95	1.08	.96	.06	5.0	5.0	5.0			
PETWORTH	13	1.04	.93	1.17	.97	.10	3.3	-3.4	10.0			
RANDLE HEIGHTS	5	.97	.92	1.01	1.00	.03	0.5	-6.0	7.0			
NOMA	3	1.01	.78	1.43	1.17	.22	-34.4	-176.1	107.2			
SW WATERFRONT	1	.95			1.00	.00						
SHEPHERD PARK	2	.87	.86	.88	1.00	.01	-2.5	-2.5	-2.5			
16TH ST. HEIGHTS	4	.86	.77	.95	1.01	.05	-6.0	-54.4	42.4			
TAKOMA PARK	5	.94	.76	1.36	1.25	.22	-7.5	-34.1	19.1			
TRINIDAD	7	.93	.65	1.00	.99	.09	2.0	-6.0	10.0			
WAKEFIELD	1	.96			1.00	.00						
WOODRIDGE	13	.88	.50	.95	1.24	.21	-2.3	-15.8	11.2			
Overall	**308**	**.93**	**.91**	**.94**	**.95**	**.17**	**0.9**	**-0.2**	**2.0**	**?**	**P**	**P**

Table 7: Ratio Statistics for Assessed Values/Sale Prices from 2014, 3IQR Extremes Trimmed Logarithmically

Group	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Co-efficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
Non-Conforming Use	1	.96			1.00	.00						
Residential Multi-Family	74	.96	.93	1.00	1.07	.12	-1.4	-3.2	0.3	P	P	P
Residential Transient	5	.93	.62	1.43	.93	.22	5.0	-10.9	20.9	P	P	P
Retail	92	.85	.78	.91	.88	.21	4.4	1.0	7.7	?	P	P
Office	71	.94	.92	.98	.96	.10	0.6	-0.4	1.6	?	P	P
Special Commercial	26	.93	.80	1.00	1.15	.25	-7.6	-18.0	2.8	P	F	P
Industrial	22	.93	.87	1.28	1.00	.22	-3.5	-13.8	6.9	P	P	P
Special Purpose	16	1.01	.81	1.39	1.01	.29	3.7	-10.0	17.4	P	F	P
Overall	**307**	**.93**	**.91**	**.94**	**.97**	**.17**	**1.0**	**-0.2**	**2.2**	**?**	**P**	**P**

Table 8: Ratio Statistics for Assessed Values/Sale Prices from 2014, 3IQR Extremes Trimmed Logarithmically

Neighborhood	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Coefficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
AMERICAN UNIVERSITY	3	.96	.62	.97	.98	.12	-1.3	-143.5	140.8			
ANACOSTIA	4	.99	.92	1.01	1.00	.03	1.1	-14.7	16.9			
BARRY FARMS	3	.93	.74	1.06	.99	.11	62.8	-17.0	142.7			
BRENTWOOD	14	.96	.86	1.39	.99	.22	-3.6	-16.5	9.4			
BRIGHTWOOD	3	1.17	.91	1.76	1.09	.24	-4.1	-174.5	166.3			
BROOKLAND	12	.82	.51	.94	.98	.20	1.9	-8.6	12.5			
CAPITOL HILL	9	.76	.48	.94	.97	.20	11.0	-8.9	30.9			
CENTRAL	40	.96	.92	.99	.99	.08	-0.1	-1.2	1.0	?	P	P
CHEVY CHASE	1	1.00			1.00	.00						
CHILLUM	1	.71			1.00	.00						
CLEVELAND PARK	2	.83	.82	.84	1.00	.01	-3.8	-3.8	-3.8			
COLUMBIA HEIGHTS	28	.89	.80	1.00	1.26	.20	-6.4	-11.2	-1.6	P	P	P
CONGRESS HEIGHTS	16	.99	.78	1.08	.94	.15	1.8	-4.7	8.3			
DEANWOOD	7	.97	.41	1.08	1.14	.15	-17.6	-44.5	9.3			
ECKINGTON	5	.71	.53	.98	.90	.13	16.0	-8.7	40.7			
FOGGY BOTTOM	4	.85	.71	.92	1.02	.09	-3.8	-41.1	33.4			
FOREST HILLS	2	.90	.80	.99	.91	.11	5.1	5.1	5.1			
FORT DUPONT PARK	1	1.00			1.00	.00						
GARFIELD	4	.81	.65	.95	.91	.10	2.0	-13.3	17.4			
GEORGETOWN	17	.91	.84	.94	.99	.11	-0.5	-5.7	4.7			
GLOVER PARK	1	.89			1.00	.00						
HILLCREST	1	1.00			1.00	.00						
KALORAMA	5	.91	.87	1.24	1.02	.09	1.3	-16.1	18.8			
KENT	1	.98			1.00	.00						
LEDROIT PARK	1	.53			1.00	.00						
LILY PONDS	1	.77			1.00	.00						
MARSHALL HEIGHTS	2	1.04	1.03	1.04	1.00	.00	1.5	1.5	1.5			
MICHIGAN PARK	3	.57	.54	.87	1.09	.19	-10.5	-303.8	282.8			
MOUNT PLEASANT	8	.86	.81	1.00	1.05	.08	-1.7	-7.3	3.9			
N. CLEVELAND PARK	2	.68	.43	.93	1.31	.37	-43.8	-43.8	-43.8			
OLD CITY #1	22	.94	.73	1.00	.99	.16	1.0	-5.9	8.0	?	P	P

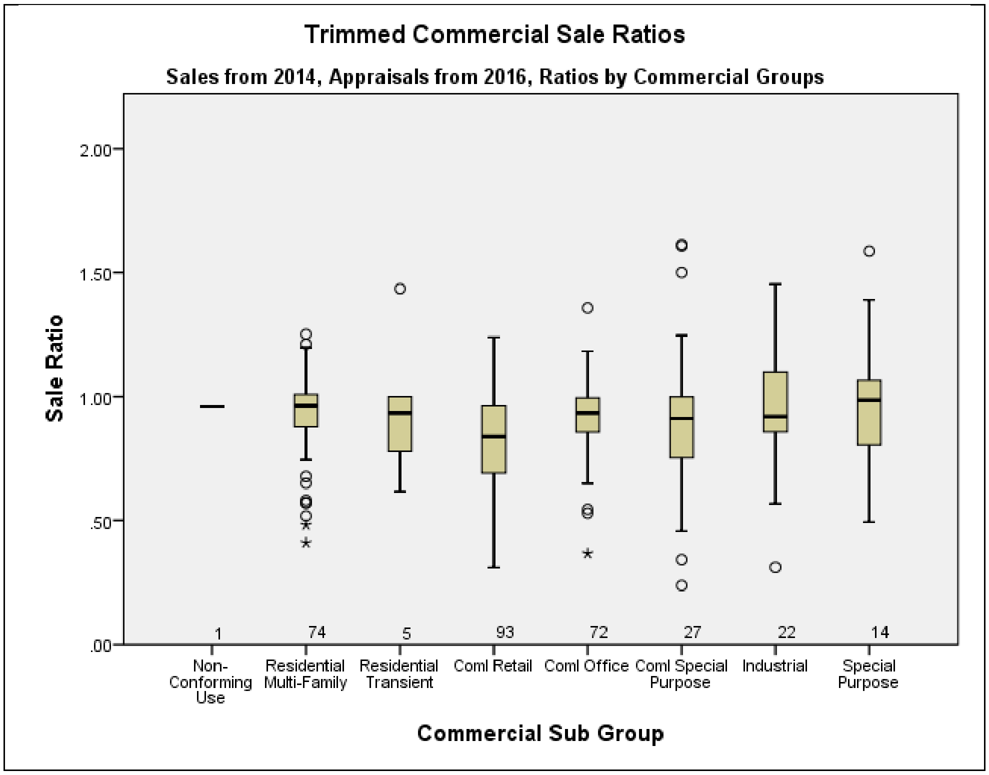
Neighborhood	Sale Count	Median	95% Confidence Interval for Median		PRD	COD	PRB Coefficient	95% Confidence Interval for PRB		Compliance Test Results Pass/Fail/?=Depends		
			Lower Bound	Upper Bound				Lower Bound	Upper Bound	Median	COD	PRB
OLD CITY #2	26	.84	.58	1.00	.95	.34	5.7	-5.1	16.6	?	F	P
PALISADES	2	1.02	.95	1.08	.96	.06	5.0	5.0	5.0			
PETWORTH	13	1.04	.93	1.17	.97	.10	3.3	-3.4	10.0			
RANDLE HEIGHTS	6	.98	.92	1.94	.74	.19	18.0	0.7	35.2			
NOMA	4	1.22	.78	1.94	1.35	.32	-28.8	-43.3	-14.3			
SW WATERFRONT	1	.95			1.00	.00						
SHEPHERD PARK	2	.87	.86	.88	1.00	.01	-2.5	-2.5	-2.5			
16TH STREET HEIGHTS	4	.86	.77	.95	1.01	.05	-6.0	-54.4	42.4			
TAKOMA PARK	5	.94	.76	1.36	1.25	.22	-7.5	-34.1	19.1			
TRINIDAD	7	.93	.65	1.00	.99	.09	2.0	-6.0	10.0			
WAKEFIELD	1	.96			1.00	.00						
WOODRIDGE	13	.91	.68	1.09	1.03	.23	6.8	-14.5	28.1			
Overall	**307**	**.93**	**.91**	**.94**	**.97**	**.17**	**1.0**	**-0.2**	**2.2**	**?**	**P**	**P**

Tables 5 through 8 also present confidence intervals for the median, COD, and the PRB, which are not included in the official report. The IAAO standard cautions that the statistic as calculated should not be determinative of a failure to comply with the standard unless the data indicate at a 95 percent level of confidence that such is the case. The standard adopts the convention that such a determination can be made on the basis of 95 percent confidence intervals for the statistic by interpreting the effective threshold as the relevant boundary of such intervals. For the median and the PRB this can be done relatively easily. For the COD and the PRO the situation is more difficult. The COD's significance or reliability can be approximated by recourse to a table published by IAAO, but the PRD's significance can only be obtained by Monte Carlo methods, which are generally not worth carrying out in view of the PRD's inferiority relative to the PRB. Given a target median of 1.0, a COD less than 20, and a PRD between 0.98 and 1.03, the IAAO target numbers, several lines in each of the tables are suggestive of compliance failures. But two considerations largely contradict this: small sample sizes and normal sampling variability. Implicitly the District has established a minimum sample size of 20 as necessary for reliable results. Some jurisdictions go as low as 5, but 20 is reasonable, and the IAAO standard is silent on this issue. The sample variability issue is addressed by the use of confidence intervals noted above. Thus, for example, all the indications of possible regressivity or progressivity indicated by the PRD are seen to be false when considered in the light of PRB results. In general, no significant vertical inequity was found by the PRB in contrast to the indications of the PRD. Similar considerations apply to the other statistics.

The District’s published Ratio Study Report includes a page with icons indicating whether the various strata have passed or failed the standard's criteria. For residential property, icons appear for the median ratio, the COD (a measure of general accuracy), and the PRD. For commercial properties, there is only one column of icons, reporting on the median ratio, while the significance of the COD, PRD, and PRB is unaddressed. Curiously, two deficiencies are noted, which would not necessarily have been counted as failures in Tables 6 or 8. Columbia Heights is noted as a compliance failure in the published report, but as indicated in the tables above the confidence interval for the median encompasses 1.00, so it is deemed compliant. Old City #2, the other failure flagged with an icon, is a failure if the District rejects the IAAO standard's option to consider level failures only if the confidence interval fails to overlap a tolerance interval, which can be set at plus or minus 5 or 10 percent. Implicitly the District's compliance determinations reflect a rejection of this layering of intervals, a posture that is conceptually to be applauded, but since the more lenient layering is contemplated under the IAAO standard, a "?" mark is used in the compliance column of tables 5 through 8 to reflect this ambiguity. Those tables also note that only two of the several possible failures in respect of the COD are shown to be reliable (according to the reference table mentioned above). Note, too, as mentioned above, that there were no vertical equity failures according to the PRB despite PRD indications of regressivity.

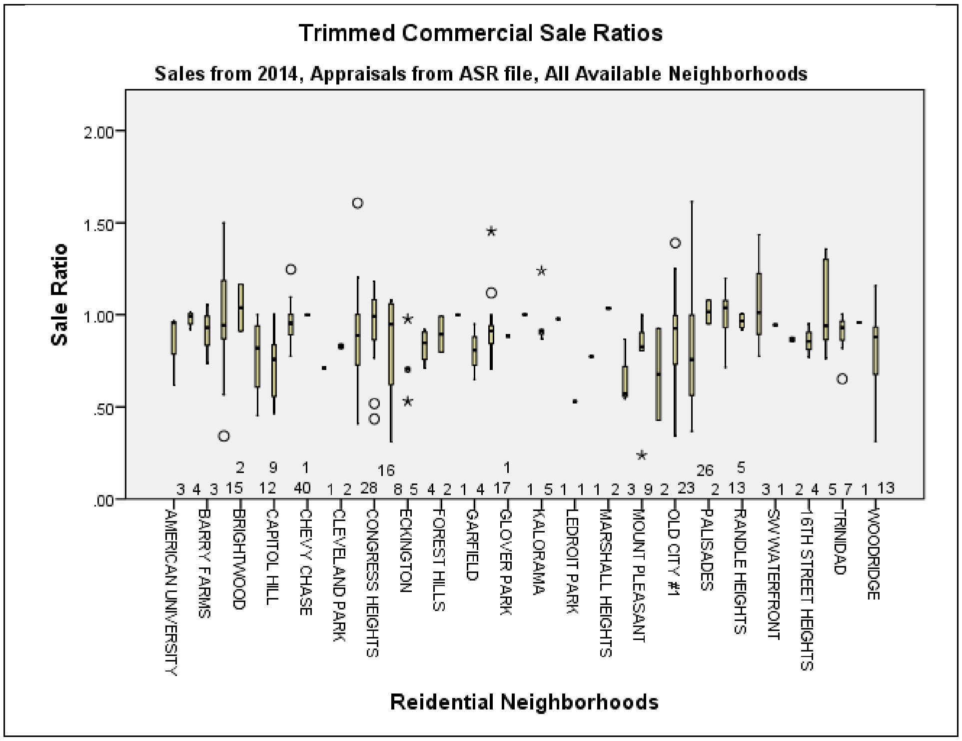
The Box Plots in Figures 7 through 8 collectively allow the reader to infer which observations were trimmed by each of the trimming alternatives. More importantly, they allow a quick understanding of the overall accuracy of the ratios in the various neighborhoods and sub classes. The bars (or boxes) indicate the range within which half of the ratio data in each category lie, with the horizontal line within each box indicating the median ratio. The vertical lines extending from the bars indicate the range of the data that would not be considered either extreme (3 IQRs from the closer quartile) or outliers (1.5 IQRs from the closer quartile). Category-based extremes and outliers are indicated by asterisks and open circles respectively. It should be noted that such extremes have been recalculated for the remaining data after the removal of extremes calculated on the basis of the commercial group as a whole. The IAAO standard explicitly prohibits multiple iterations of trimming. As can be seen, the medians generally line up appropriately, although some scatter is evident among the neighborhoods as a result of the very small sample size for most of them. Figures 7 and 9 reveal that retail properties may be assessed at a slightly lower ratio than other commercial sub types. The numbers above the horizontal axis give the sample size in each group, and the group labels immediately below normally appear for each group rather than every other one as shown for individual neighborhoods since there are so many of them. Such depictions would be much more useful if made for the nine commercial neighborhoods or economic areas previously mentioned, as can be seen in comparing the use and neighborhood groupings of Figures 8 and 10. Recoding the residentially appropriate number of neighborhoods into the nine commercially appropriate ones could be easily accomplished.

Figure 7: Box Plot of Ratios by Commercial Groups



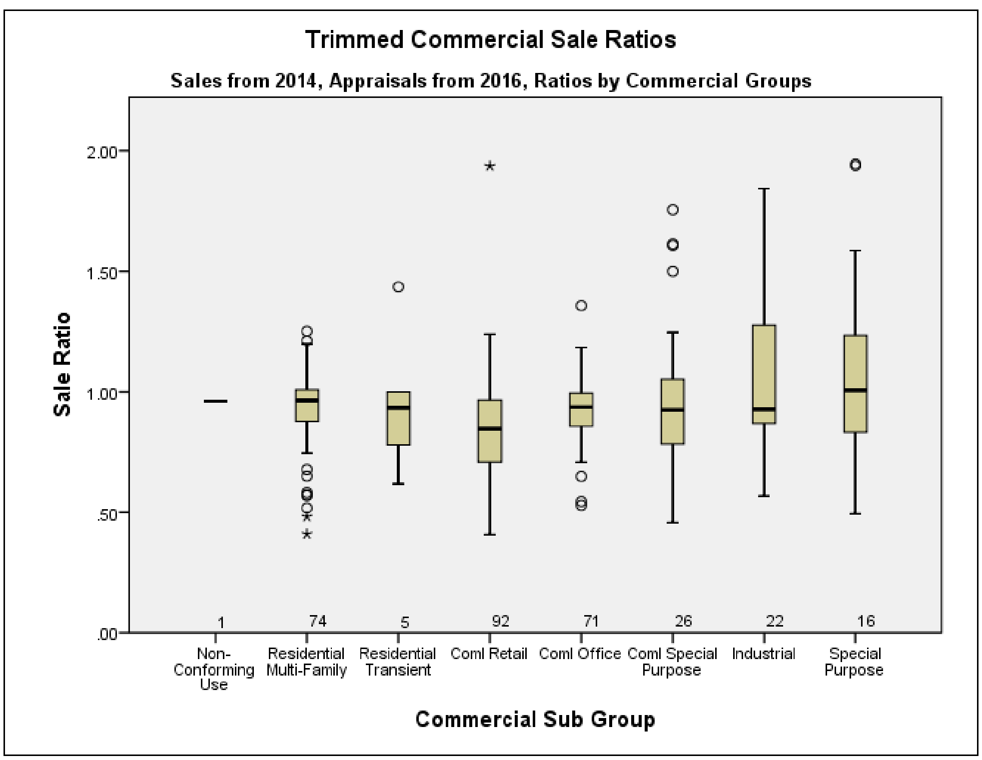
Note: Extremes trimmed using raw ratios.

Figure 8: Box Plot of Commercial Ratios by Residential Neighborhoods



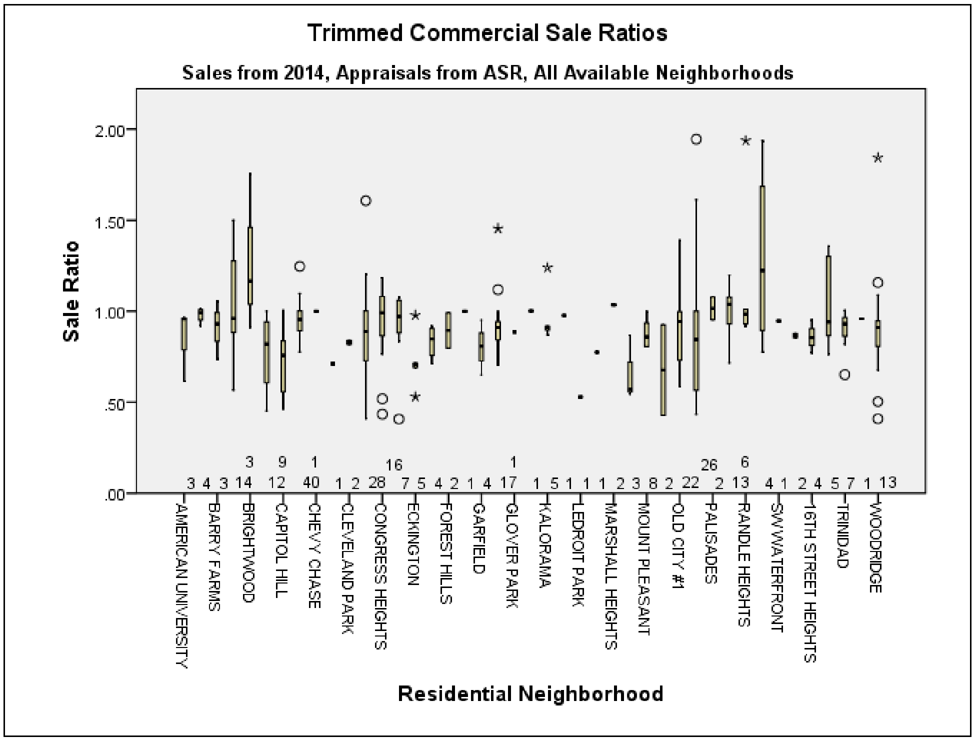
Note: Extremes trimmed using raw ratios.

Figure 9: Box Plot of Ratios by Commercial Groups



Note: Extremes trimmed logarithmically.

Figure 10: Box Plot of Commercial Ratios by Residential Neighborhoods



Note: Extremes trimmed logarithmically.

EVALUATION OF ORGANIZATIONAL STRUCTURE, WORKLOAD STATISTICS, PERFORMANCE MEASURES, COMPENSATION REQUIREMENTS, STAFFING LEVELS, TRAINING, QUALIFICATIONS, STAFF DEVELOPMENT FUNCTIONS, AND HIRING PRACTICES

Organizational Strategy

In our efforts to assess the organizational structure's ability to effectively support RPTA's organizational strategy, we discovered that RPTA did not possess or operate on an explicit, discrete, and coherent organizational strategy. We found that RPTA management operates on unwritten operational and tactical plans that are not clearly aligned with the OCFO's strategic objectives and initiatives. In the absence of this strategy, a meaningful evaluation of RPTA's organizational structure to support its organizational strategy could not be executed.

24. **We recommend that RPTA develop and implement a clear, bold, and pragmatic organizational strategy through an annual strategic planning process. This strategy should clearly articulate clear choices (what to pursue and what to not, what capabilities and assets to leverage) in operational and tactical terms - in the shape of goals, objectives, policies and procedures- on how to execute the OCFO's strategic objectives and initiatives. RPTA should then continuously assess whether the organizational structure is capable of effectively supporting the execution of this strategy. The strategy should be continuously iterated through the use of a well-defined feedback loop to adapt and ensure alignment with the OCFO's strategic objectives and initiatives in the face of exogenous regulatory, technological, economic, and demographic changes. An organizational structure impact analysis should then be conducted in the event of a recalibration of the organizational strategy.**

Standards and Services Unit

The Standards and Services unit lacks a written charter. Consequently, there appears to be a lack of clarity with respect to the unit's position in the organizational structure and its reporting relationships. Two organizational charts that were divergent on the position and reporting relationship of this unit were prepared and provided for review. In the absence of an organizational strategy and a departmental charter, we could not assess the optimal position of this unit within the RPTA's organizational structure.

25. **We recommend that RPTA develop a written charter for the Standards and Services Unit and optimally position this unit, taking into account RPTA's organizational strategy.**

CAMA Team

RPTA's assessment functions are undertaken by the following units working collaboratively:

- 3 commercial units;
- 3 residential units;
- Maps and titles unit;
- Standards and services unit; and
- Appeals unit.

RPTA's CAMA-related functions are presently grouped within the Standards and Services Unit, which executes a wide range of functions such as: exemptions, class 3 and class 4 programs, assessments for cooperatives, New York Avenue special assessments, I&E reporting program, and maintaining the policies and procedures manual, assessors reference materials, Pertinent Data Book (published in April), and market analytics books (published in August) containing market norms for rents and expenses, expenses for office building, cap rates, etc. In prior years, the exemptions function was organized as a distinct unit. Given the sweep of his responsibilities, it is unrealistic for this unit leader to exercise adequate oversight over RPTA's CAMA functions.

26. **We recommend that RPTA organize the CAMA function into a separate unit. The unit should be adequately staffed. Additionally, RPTA should assign leadership responsibilities for the unit to the current CAMA manager, who should report to the Deputy Chief Appraiser.**

Appraiser Leadership

Each commercial unit has Senior Appraisers, Staff Appraisers and Assessment Technicians. Senior and Staff Appraisers execute the same level of responsibilities. All personnel within each commercial unit report directly to the Unit Supervisor. This arrangement has resulted in very few opportunities for leadership development that is critical to ensure a seamless transition when supervisory positions become vacant.

27. **We recommend that RPTA reconfigure reporting relationships within the commercial units by assigning oversight responsibilities of Staff Appraisers and Assessment Technicians to both Supervisors and Senior Appraisers.**

Office of Quality Assurance, Best Practices and Innovation

RPTA currently lacks independent quality assurance mechanisms to drive excellence in its assessments. Most quality reviews are limited to Supervisory level reviews. Apparently, little or no effort is expended on compiling best practices in all core processes or applying leading thinking by studying the assessment practices of state and local government entities geared towards utilizing better methods, enhancing the quality of service output, controlling and reducing process waste, reducing processing costs, improving process efficiency, improving productivity, and reducing processing times.

28. **We recommend that RPTA establish an Office of Quality Assurance, Best Practices and Innovation to: (a) conduct random and regular independent assessments of quality in all core processes; (b) assess performance against best practices; (c) study the commercial real property assessment practices of state and local government entities across the United States; and (d) engage in process innovation to enhance service delivery. This office must report directly to the Director of RPTA and report yearly to the District's CFO.**

Cross-training Assessors

RPTA's assessment units are organized on the basis of the nature of assessments (commercial or residential). When vacancies unexpectedly arise in the commercial unit, work is impacted adversely owing to a combination of RPTA's specialization of assessments functions and the realities of the labor market. While specialization has its benefits, we believe such benefits are far outweighed by the agility that a cross-trained workforce will accord. Additionally, we believe cross-training will yield rich insights stemming from exposure to diverse situations. We also believe it will enhance the quality of both commercial and residential assessments.

29. **We recommend that RPTA cross-train assessors in both commercial and residential assessments. This will enhance job enrichment and ensure that the workforce is flexible, agile, and able to effectively deal with uncertainties.**

Workload Measurement System

RPTA collects workload data with respect to number of assessments and appeals. There are no credible mechanisms to capture and measure data that link the work of non-appraiser personnel to these two activities. We believe this measurement framework is too simplistic to accurately assess the impact of the workload level on performance of appraisers, employee morale, or the quality of assessments, which are impacted by the quality of available data, the cooperation of the property owner and the complexity of the assessment among other factors.

30. We recommend that RPTA develop and implement a credible workload measurement system to evaluate the efficiency and effectiveness of the assessment process.

Strategic and Operational Human Resources Plans

The Office of the Chief Human Resources Officer (OCHRO) has not developed strategic (3-5 year outlook) and operational (outlook of one year or less) human resources plans. The absence of a strategic human resources plan can result in wide gaps between human resources practices and the OCFO's strategic plan thereby undermining OCFO's overall efforts to achieve its strategic goals and that of RPTA. The absence of a human resources operational plan is a key contributing factor to RPTA's inability to meet their future labor needs proactively. An effective human resources operational plan compares present workforce capabilities with future demands and is a useful tool in enhancing organizational agility in the face of uncertainties.

31. We recommend that OCHRO develop a strategic human resources plan that addresses the needs of RPTA. The plan should:

- **Assess current human resources capacity;**
- **Forecast human resources requirements;**
- **Perform a gap analysis; and**
- **Develop and document a human resources strategic plan to support the OCFO's strategic plan and the RPTA's organizational and operational strategies. This strategy should include the following:**
  - **Restructuring strategies;**
  - **Training and development strategies;**
  - **Recruitment strategies;**
  - **Hiring strategies;**
  - **Outsourcing strategies; and**
  - **Collaboration strategies.**

We also recommend that RPTA adopt an operational human resources plan that incorporates the following activities:

- **Forecasting labor demand;**
- **Estimating labor supply from existing employees or the external labor market; and**
- **Crafting an appropriate response depending on whether (a) labor demand exceeds labor supply, (b) labor supply exceeds labor demand, and (c) labor demand equals labor supply.**

Balanced Scorecard

RPTA has not established any organizational level performance or strategic benchmarks, metrics or indicators to manage organizational performance or its human resources functions.

Establishing and measuring key performance parameters is critical to optimizing RPTA operations by driving improvements; focusing resources on strategic and operational priorities; measuring progress against missional goals; making informed decisions; and comparing performance against industry ratios. This will help management to learn from successes and correct failures.

32. We recommend that RPTA adopt measures to link operational activities to its organizational strategic plan and mission. In addition, key human resources metrics, such as Yield Ratios (ratio of offers to acceptance, interview-to-offer ratio, invitations-to-interview ratio, advertisements or contacts-to-applicant ratio), should be established. No set of performance measures or benchmarks are as effective as a balanced scorecard, which is designed to provide a fast and comprehensive view of an organization's business. RPTA personnel should compile an effective set of financial measures and operational measures (on customer satisfaction, internal processes, and the RPTA's innovation and improvement activities) that will put RPTA's strategy and vision at the center of its operations. This tool would drive its personnel to adopt behaviors and invest in actions that are critical to arrive at strategic and operational goals and align them toward an overall vision.

Structured Employee Development Program

There exists no written and structured employee development plan. The primary purpose of which should be to develop and train the replacements for current RPTA supervisors, managers, and leaders.

33. We recommend that RPTA organize, formalize, and document its employee development program. This should consist of the following phases:

- ***Assessment:* This includes identifying an employee's strengths and weaknesses to help employees choose a career that is realistically obtainable and represents a good fit; and to determine the weaknesses they need to overcome to achieve their career goals. Assessment can be achieved through employee self-assessment by way of skills assessment exercises, an interest inventory, and values clarification; and organizational assessment through situational exercises, such as interviews, in-basket exercises, business games, promotability forecasts, that would allow RPTA to identify people who appear to have high advancement potential.**
- ***Direction:* This phase involves determining the type of career that employees want and the steps they must take to realize their career goals. This should be based on a thorough assessment of the current situation. Two key ways to achieve this are individual career counseling and information services, such as skills inventories, career paths and a career resource center.**
- ***Development:* This phase is meant to foster growth and self-improvement necessary to move up in RPTA and involves taking actions to create and increase skills to prepare for future job opportunities. This can be achieved through programs such as mentoring, coaching and job rotation, which includes: project rotation, partial rotation, cross-functional rotation, temporary rotations, and interdepartmental mentoring.**

Structured Training Program

We observed that there is little or no correlation between RPTA's training programs and its strategic needs reflected in the OCFO's strategic plan. Additionally, we observed the following in relation to training design:

- Little or no individual needs assessment is performed prior to training design;
- Little or no organizational analysis is performed prior to training design;
- Little or no task (or job) analysis to determine Knowledge, Skills, and Abilities (KSA) required to perform individual functions prior to training design; and
- Training goals are not clearly articulated.

There also exists no clear criteria by which training effectiveness is measured. All these can result in a workforce that is ill equipped to accomplish the OCFO's strategic goals.

34. We recommend that RPTA develop a structured training program that is based on the following:

- **An effective assessment of individual needs;**
- **An organizational analysis; and**
- **A job analysis of KSA for each function.**

Also, RPTA should clearly articulate training goals for each individual and establish criteria by which the effects of training can be measured.

Job Descriptions

From interviews with RPTA personnel, we understood that job descriptions are not accurately reflected in the related vacancy notices. This could hinder the ability of RPTA to fill vacancies timely. Also, failure to accurately describe job responsibilities can result in new hires being unprepared for their duties and requiring extra training to fulfil their jobs.

35. We recommend that RPTA undertake a detailed job analysis prior to crafting position descriptions for vacancy notices. An effectively conducted job analysis will help the human resources department to: generate a higher-quality pool of job applicants by making it easy to target and screen qualified job applicants, and to make selection choices, determine training needs, and compare the relative worth of each job's contributions to RPTA's overall performance, which can be key determinants of the job's pay level. This analysis should include the following:

- **Task inventory analysis: This involves interviews, surveys, and preparing a knowledge, skills, and abilities matrix.**
- **Critical incident techniques: This is where supervisors and other employees generate behavioral incidents of job performance. This step involves identifying the major dimensions of a job, generating critical incidents of behavior that represent high, moderate, and low levels of performance on each dimension and ensuring that these incidents are viewed the same way by other employees.**
- **Position analysis questionnaire: This involves determining the degree to which 194 different job elements are involved in performing a particular job.**
- **Functional job analysis: This is a technique that mobilizes information on certain aspects of the job, including:**
  - **The effect the job incumbent has on other people, data, and things;**
  - **Methods and techniques the job incumbent uses to perform the job;**
  - **Equipment used by the job incumbent; and**
  - **Materials and services produced by the job incumbent.**

Succession and Contingency Plans

We noted that RPTA does not have written succession and contingency plans for the key roles of Director and Chief Appraiser. The cost of not designing or implementing an effective succession plan program is the enhanced risk of hiring and promotion mistakes, loss of institutional knowledge, and the adverse impact of turnover in key roles, which includes the risk of discontinuity of key strategies and operational initiatives.

36. We recommend that RPTA design, document, and implement effective succession and contingency plans. This will ensure seamless continuity of RPTA strategy and operations in the event of an unanticipated vacancy in either role. The succession plans should be

approved by senior management. To ensure accountability, responsibility for this key program should be embodied within the position description for each role. Key metrics should be designed to periodically monitor and evaluate the program.

Hiring Processes

RPTA has experienced significant delays in finding permanent placements for key positions. As examples, the position of Chief Appraiser was not filled permanently for approximately a year, the position of Supervisory Appraiser for Litigation and Appeals was not filled permanently for approximately eight (8) months, and the Position of Director has been filled temporarily since December 2015. Additionally, two (2) appraiser positions in the commercial unit have been unfilled for a year and one has been vacant for approximately 6 months. The Agency's hiring practices may be divorced from market realities and therefore reactive rather than proactive. Permanently unfilled positions can result in a surge in employee workload and work backlogs. This could undermine employee morale and compromise an organization's internal control system.

37. **We recommend that the OCFO undertake a comprehensive review of its hiring practices and processes with respect to RPTA. Deficiencies that may be inducing these delays should thereafter be addressed. OCFO should design and implement a recruiting and hiring strategy that is proactive and anticipatory - one that will effectively and continuously support the Agency's mission in the face of uncertainty.**

APPENDIX: TABLE OF ACRONYMS

AGJD	Almy, Gloudemans, Jacobs, and Denne
ARM	Appraiser Reference Materials
BRPAA	Board of Real Property Assessments and Appeals
CAMA	Computer-Assisted Mass Appraisal
CD-ROM	Compact Disk - Read-Only Optical Memory
CFO	Chief Financial Officer
COD	Coefficient of Dispersion
DCRA	Department of Consumer and Regulatory Affairs
GIS	Geographic Information System
I&E	Income and Expense
IAAO	International Association of Assessing Officers
IQR	Interquartile Range
ITS	Integrated Tax System
NOI	Net Operating Income
OCFO	Office of the Chief Financial Officer
OCHRO	Office of the Chief Human Resources Officer
OS	Office of the Surveyor
OTR	Office of Tax and Revenue
PRB	Price-Related Bias
PRD	Price-Related Differential
ROD	Recorder of Deeds
RPAD	Real Property Assessment Division
RPTA	Real Property Tax Administration
RPTAC	Real Property Tax Appeals Commission
SSL	Square-Suffix-Lot
TY	Tax Year
USPAP	Uniform Standards of Professional Appraisal Practices

APPENDIX A. AGENCY'S RESPONSE TO THE DRAFT REPORT

1. **We recommend that RPAD evaluate whether the current nine market areas are appropriate in the valuation of the types of commercial properties, as discussed later. A general issue is whether the areas are large enough to produce reliable samples of sales and I&E reports.**

   The sizes of areas are less important than ensuring that an area is subject to the same market influences. OTR believes that the office market area, closely resembling CoStar's boundaries, is the single most important delineation in the District for commercial property. Upon examination, OTR has determined that, to an acceptable degree, the apartment and retail markets are adequately distinguished utilizing the office market overlay. Individual appraisers also have the discretion to make adjustments to valuations based on discrepancies from an idealized solution. We are currently exploring options for a new billing system and will consider including this enhanced capability for delineation in our requirements.

2. **We recommend that RPAD management develop a plan for periodically inspecting properties so there is reasonable assurance that property characteristics data are up-to-date.**

   The division is always striving to improve the quality of our property attribute data. The division is exploring the use of iPad field devices for this purpose. These tablets will have all the capability of replicating CAMA records along with oblique image libraries, sketching and image capture. Deployment is expected during the Summer of 2017. This will ensure complete coverage of the inventory. This initiative will be in addition to the field-work conducted as a result of sales and supplemental assessments.

   The improvements that are being made to our I&E filing program will also go towards improving the quality of the income characteristics of our commercial inventory.

3. **We recommend that RPAD reconfigure the CAMA system to begin recording sale qualifications with respect to sales-ratio study purposes as well as validations with respect to modeling purposes.**

   The division's primary use with respect to sale information is to help analyze and develop the appropriate capitalization rates for the various types and classes of commercial property where the income approach to value is employed as the primary indication of value. We collect and qualify as much data as possible to ensure our analysis reflects the activity in the market. However, the number of sales of various types of commercial property rarely meets levels that would allow for meaningful assessment to sales ratio studies. For TY 2018, OTR utilized sixteen office sales in its analysis.

   OTR cannot see a scenario wherein it would disqualify a sale for modeling and use the same sale in a sales-ratio study, and vice versa. Sales are so rare and so critical to the income approach analysis that OTR goes to great length to thoroughly research a sale before it must be disqualified.

4. **We recommend that RPAD not use code 07 unless there is convincing documentation that the sale was "speculative."**

   The "speculative" code is defined as "Sale is unqualified; the prime motivation of purchaser is quick profit through resale either before or after renovation. While these types of transactions tend to be below market value, they may represent market value and may be coded "01" (market), provided that the physical attributes of the sale represent the condition at the time of the sale, and the assessor

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believes the transaction represents an arms-length sale. When the property characteristics have changed subsequent to the sale the sale must be unqualified."

When an appraiser selects this code, he or she is convinced that the sale is speculative. This is easily made manifest when: 1) the property has a renovation permit associated with it, or 2) the appraiser notes on-going construction, or 3) the property characteristics in our records have recently been improved on the property, or 4) the property located in a neighborhood is experiencing transition, or 5) the buyer is a known speculator. There are innumerable legitimate reasons for an appraiser to code a sale "07, and management does not believe it is an issue that warrants attention.

5. **We recommend that submitted I&E forms be reviewed by RPAD before they are sent for keying. Forms that are returned blank or largely incomplete should be returned to taxpayers for completion. Additionally, RPAD staff should screen completed forms and mark them as usable, questionable, or unusable. There is no point in keying unusable responses, although they could still be scanned for documentation purposes. Just as sales are screened prior to valuation analysis, income data should be screened, particularly given the fact the RPAD relies principally on the income approach for valuing commercial properties.**

   This function is being done in the Standards and Commercial units as a matter of course. Within the Standards Unit, both the Assessment Program Coordinator and more particularly the Market Analyst, review the submitted forms for completeness and accuracy. Also, individual appraisers in the Commercial units scrutinize I&E forms corresponding to their assigned properties. When forms are not submitted, are inaccurate or deemed incomplete, OTR notifies the filer and if the filer is non-responsive, OTR subjects them to a ten percent penalty on their next tax bill. We recognize that more effort needs to occur in this activity, and as noted in Recommendation #6 below, we have developed a full-time position and are recruiting for it.

6. **We recommend strongly that the I&E auditor position be filled by a competent, conscientious person with knowledge of I&E data.**

   We concur with this recommendation and continue to recruit for this position. In an effort to get more qualified candidates we have changed the position title from I&E Auditor to I&E Analyst to ensure that we attract candidates with the desired appraisal and analytical skills.

7. **We recommend that I&E processing be further improved.**

   The I&E process is under constant improvement. For the CY 2017 season, the division has made significant improvements to the filing process in both the user's experience and the back-end database functionality. The ability to file as an economic unit is an example of the many improvements made this year. These improvements are expected to increase the number of e-filers along with making the I&E data available to the staff months earlier than before. Whereas, last year the division received aggregated data in October, we anticipate having aggregated data in June. This extra time will be extraordinarily beneficial as we model and calibrate our income models for TY 2019. As the on-line I&E filing process improves, the ultimate goal is to require electronic submission and eliminate paper filing entirely.

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8. **We recommend that RPAD seek to require I&E submissions before the assessment notice deadline.**

   This recommendation was also cited as Recommendation 8 in the first performance audit dated September 30, 2012. We concur with this recommendation. Our efforts to stream-line the I&E filing process is one part of a multi-part effort to allow RPAD to utilize the most timely income and expense information in its valuations. The other aspects to implementing this initiative involve gaining support from the commercial community and acquiring legislative authority to change the assessment calendar. The latter two efforts are underway; however, they are beyond the control of the division. Expectations are that the necessary changes will be developed and implemented for the TY 2019 valuation.

9. **We recommend that RPAD update land values more regularly and refine the valuation approach. Consideration should be given to assigning responsibility for land valuation to a single appraiser/analyst in each commercial unit, or assigning the responsibility entirely to the new commercial unit (the "C" team). One procedural refinement would be to increase sample sizes through land residuals derived from recent improved sales. Part of this effort could be a general reconsideration of commercial market areas. The basic question is whether the existing nine areas serve all types of commercial properties well.**

   Based upon recommendations #7 and #24 of the September 30, 2012 performance audit, the division moved to having the commercial appraisers specialize their assignments. This has been an effective means to ensure accurate and consistent valuations. There are two appraisers assigned to land valuation along with other minor property types. OTR agrees that the quantity of sales of commercial vacant land is low and that by using the land-residual techniques to extract land values from newly constructed commercial properties would supplement the limited number of sales that are used to establish reliable land rates. OTR will institute this technique and document its use in manuals at the first opportunity, which will be the TY 2019 valuation.

   Additionally, OTR will make more use of GIS/CAMA tools to enhance the valuation of land.

10. **We recommend that RPAD adopt procedures for valuing possessory interests and air rights and add them to the ARM and/or Employee Handbook.**

    Both of these categories of property are unique and the industry has not fully settled how best to value them, except in the most general of terms. For example, possessory interests should be valued by discounting the value of the lease and air rights should be valued based on an apportionment of the total fee value of the ground lot. The issues come in when a lease is not typical of the market or upper air-rights lots have a superior view.

    The division concurs that these types of appraisals need to be documented and will continue to refine our approach; however, we are reluctant to publish anything prematurely, without thorough and complete vetting. The Almy, Glaudemans, and Denne auditors admit, in recommendation 15 below, that this is a difficult endeavor. OTR will, however, ensure that the topics are formally addressed in our procedures and documented in our ARM and/or Employee Handbook for the TY 2019 reappraisal.

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11. We recommend that RPAD further improve the valuation of office buildings by reviewing property data for accuracy and consistency and by building data analysis skills. Because capitalization rates are so critical to value determination and office sales are relatively scarce, office sales should be thoroughly researched and consideration should be given to expanding sample sizes through use of prior year sales time-adjusted to the valuation date. Again, building data analysis skills will help, and continuing to check capitalization and other income rates with those reported in industry publications and services will provide additional support.

When sales are adequate, we generally use the most current year to develop our capitalization rates. When the number of sales is determined to be inadequate to develop reliable market capitalization rates, we will expand our sales to include time-adjusted sales over a period of no more than two years commencing with the TY 2019 revaluation effort. Additionally, we generally rely more on survey data when sales are scarce.

12. We recommend that RPAD develop and vet a plan for valuing retail properties at market value consistent with other properties in the District. This could be accomplished by phasing in increases over a two or three year period. The plan should include consideration of whether:

- The nine market areas used for offices are adequate for retail properties. Although the situation may well be different in the District, retail market areas or neighborhoods usually follow traffic corridors more than offices do. Again, while this may well not apply in the District, it would be prudent to consider whether retail areas should be defined separately from office areas.

  OTR agrees with this point, as outlined in our response to recommendation #1 above.

- Additional space types, easily accommodated in the CAMA system, would be helpful. One example is restaurants. Current rent tables provide a separate rate for restaurant spaces but do not distinguish between fast food and full service restaurants. Although appraisers can apply adjustments for "tenant appeal," standardizing rates creates consistency and lessens the need for individual property adjustments. In any case, retail properties warrant special attention in the march to appraise all properties in the District equitably at market value. We believe that, as with office properties, the CAMA system provides an effective mechanism for generating accurate and equitable values. As noted, the CAMA system allows users to vary vacancy rates (along with rent rates) by market area, and analyses should be conducted to determine whether it would be appropriate to do so. Varying vacancy rates by market area could improve valuation equity while relieving appraisers of the need to apply as many individual property adjustments. Although Version 7 of CAMA has the ability to apply per square foot (rather than percentage) adjustments for expenses, we see no merit in doing so since per square foot adjustments require more frequent updating than percentage adjustments.

  The division has recently implemented a retail income model in CAMA where it was used for the second year with the TY 2018 valuation. As OTR gains experience with the model, it will be continuously updated and re-calibrated as more accurate data becomes available through more and better income and expense information and more accurate property attribute data. OTR has a schedule of field inspections scheduled in advance of the TY 2019 revaluation to improve property attribute data. OTR's Market Analyst is focused on identifying those value characteristics that the market deems significant in establishing accurate values across the many and diverse types of retail property.

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13. **We recommend that RPAD develop additional mass appraisal tools for valuing industrial properties. While we have no issue with the appraisal approaches used for industrial properties, we recommend that, like most other properties in the District, they be appraised largely on a mass appraisal basis. Income rates could be developed and entered in CAMA, and sales based models could be developed. As with other commercial properties, considering prior year sales (appropriately adjusted to the valuation date) could help improve sample sizes. Values should be based on whichever valuation approach works best, or the appraiser could enter an override value. Procedures related to the valuation of industrial properties should be included in the Employee Handbook and/or ARM.**

    Unlike other city or urban jurisdictions, the District of Columbia has no meaningful industrial development. In the District of Columbia there are 482 industrial properties in total of which 392 are storage facilities or warehouses. Sales-based models would be difficult to develop as there are little to no qualified sales of these properties, even over an extended period of time. A rudimentary model could be developed using industry standards for calibration, however, finding statistics and survey data on industrial properties other than storage facilities is problematic. Also note that except for some well-positioned self-storage facilities; most industrial properties in the District are likely not at their highest and best use. The OTR will consider the income approach for TY2019; however, if it is not deemed feasible and reliable, we will continue to rely on the cost approach to valuation for this small sub-set of properties.

14. **We recommend that RPAD evaluate whether improvements in rent table structures, market areas, and the treatment of reserves for replacement are feasible. We wonder whether the 40 distinctions in rent rate tables are productive; that is, whether the required data is fully known and consistently applied. By way of contrast, we note that the apartment I&E mailer only provides for six unit types (efficiency, 1-bedroom, 2-bedroom, 2-bedroom +den, 3-bedroom, and 3-bedroom +den) plus an "Other (list)"category. Although we do not recommend that income rent tables be similarly collapsed, we think it would be helpful to discuss the issue and either affirm the present categories or simplify them going forward. As with other categories of commercial property, consideration should also be given to whether the nine market areas originally based on Costar office submarkets are still relevant to apartments or whether the residential neighborhoods assigned to apartment market areas should now be refined (we do not suggest that this is necessarily the case only that it be reviewed and considered).**

    We concur that our models need continuous scrutiny to ensure that the model replicates the actions of buyer and seller in the market. The apartment model will be re-evaluated for the TY 2019 to include having our I&E form and our valuation model more represent the mix of units found in the market. In addition to ensuring rents are appropriate, OTR will also define the apartment building in a similar manner to what is utilized in the industry, specifically Class A, Class B and Class C delineations. We also intend to better reflect the treatment of low-income, subsidized units in our model for the next valuation cycle, TY2019. Reserves for replacements have been properly accounted for in OTR's most recent, TY2018, valuation.

    With regard to the application of CoStar's office sub-market delineation as applied to apartments, we have seen a high correlation of the two and therefore believe that no further refinement of the apartment submarket boundaries is warranted. On those minor occasions where discrepancies occur, the appraiser has a full suite of tools available to make appropriate adjustments to compensate for the differences.

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15. We recommend that RPAD strive to keep documentation of appraisal procedures and practices current and consistent across property types when appropriate. Updating appraisal documentation is always a challenge as valuation processes are improved. Although both the ARM and Employee Handbook provide relevant, well-written explanations and instructions, we do recommend that a conscious effort be made to keep them current and consistent. While the current Employee Handbook reflects the incorporation of office buildings into the Vision income tables for TY 2017, the ARM are written specifically for apartments and do not appear to have been similarly updated.

We agree that documentation needs to be consistent with practice and will make the update of our documentation a priority. OTR publishes an Appraiser's Reference Materials manual, an Employee Handbook, a Customer Service Manual, a Pertinent Data Book and a Market Analysis book. OTR will make every effort to keep these publications current and consistent.

16. We recommend that RPAD begin reporting ratio study statistics with respect to assessed values on the roll at the time of sale rather than, or in addition to, assessed values anticipated to be enrolled later, as are currently reported.

After the revaluation is concluded each year, the District has the opportunity to examine the results of the revaluation against sales that occurred after the date when the models were calibrated. This is in effect a "hold-out sample" that gives the managers an opportunity to ensure that the appraisers are not "chasing sales." The report mentions that there is no indication of "sales chasing" and OTR concurs with this conclusion.

Also, as represented in the chart below, OTR does not have a significant number of commercial sales that would allow a "hold-out" sample to be practical.

17. We recommend that RPAD transition to computing and reporting ratio statistics by property type and market area.

Ideally, this would be the most beneficial way to report commercial ratio statistics but the qualified sales of commercial properties are limited. See table below:

Number of Qualified Sales Used by Tax Year and Property Type

Tax Year	Property Type	Office	Apartment-HR	Apartment-LR	Retail	Hotel
2015		21	9	22	N/A	7
2016		20	5	12	N/A	8
2017		25	8	48	106	11
2018		16	6	47	N/A	N/A

2017 is the first year that sales were directly tracked for retail-No retail analysis done as of yet for 2018
No Sales list compiled as of yet for hotels in 2018

Sample sizes of less than 30 are not reliable indicators of ratio statistics.

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18. **We recommend that RPAD begin to adopt a standard-accepted trimming rule rather than the arbitrary ratio boundaries of 0.40 to 1.60 presently employed.**

    As discussed in our response to recommendation #3, our primary use of qualified sales of commercial property is to help develop and support the various capitalization rates used in the income approach to valuation. OTR contends our established trim range is not arbitrary, and most importantly, is sufficiently large and few if any ratios are excluded. Only the most extreme of the outliers would be excluded, as would be appropriate. OTR does not intend to modify this methodology.

19. **We recommend that RPAD take steps to compute and, when appropriate, publish confidence intervals for important statistics. This would enable readers to judge whether an apparent success or failure is more likely to reflect a fluke of small samples than a real problem.**

    The confidence interval would be a good test to ensure the reliability of our median calculation. It is easily developed from modern statistical software packages. OTR will include it in their annual published ratio report and provide a narrative about it in the report that is published typically in August or September of 2017.

20. **We recommend that RPAD begin to compute and, when appropriate, publish PRBs.**

    Vertical inequity is currently being measure by the price-related differential. The price-related bias test is one of several additional tools to measure this bias. In our experience, adequate sales exist in our residential inventory to make a price-bias test meaningful when values are generated from our CAMA system which applies OTR's sales-calibrated cost approach. For example, "economies of scale" have been known to introduce systemic errors in CAMA valuation models. However, in the valuation of commercial properties, where the income approach is the primary indicator of value those limitations rarely, if ever, occur. The marginal square foot of rentable area is identical to the first square foot. Additionally, in general, commercial properties, collectively, are much more heterogeneous than residential properties, making a bias test difficult to interpret. We do not see the merit of computing and publishing the PRB for commercial property.

21. **We recommend that RPAD begin to produce statistical graphics to facilitate quick comprehension of patterns not immediately observable from numeric tables.**

    RPAD includes a histogram depicting the distribution of ratios for all residential property in the District. This chart easily illustrates both the level of assessment and the dispersion of ratios as measured by the standard deviation. RPAD will display a similar chart for the ratios of all commercial properties in its next report typically published in August or September of 2017.

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22. We recommend that RPTA produce a USPAP-compliant mass appraisal report based on the ARM. The report would blend procedural narratives with statistical data on valuation parameters such as rents, expense ratios, and capitalization rates. The aim is to make public more evidence of the credibility of assessments. The recent additions related to residential and residential land valuation provide a template for changes that would be desirable in the discussion of commercial valuation procedures.

The information discussed in the recommendation such as statistical data on valuation parameters such as rents, expense ratios, and capitalization rates and the like are contained in the division's Pertinent Data book and Market Analysis book. OTR will make the Pertinent Data book available to the public for no charge and will also publish it on its website along the other publications.

23. We recommend that efforts continue to improve how RPTA defends assessments under appeal. This can be done by:

- Continuing to monitor the quality of its valuation performance as it already does via its appeals tracking system, recognizing that a superior measure of performance is found in assessment to sales price ratio studies;
- Augmenting its efforts to manage its appeal/litigation management system, with attention not only to monitoring conditional liabilities and calendar related workflows, but also to the management of related documents and professional services; and
- Considering whether to advocate for a redress in the appeal incentives from a game theoretic perspective, either by advocating for an increase in the cost to property owners of filing an appeal, perhaps on a recurring basis to spur their prompt resolution, or by adopting social pressures rather than, or in addition to, economic incentives to address the situation.

OTR intends to substantially improve it appeal/litigation management system by procuring an Appeals Tracking system from an outside vendor to replace its legacy FoxPro system. We expect to have a system selected and in place for the TY2019 appeal season that starts on our about Aprill, 2018.

With regard to the unbalanced incentives for appellants at the 3rd level of appeal, OTR currently, as noted in the report, has "limited options" for counter-strategies. Presently, OTR imposes no impediments to a property owner's right to appeal his/her property valuation. Speedy resolution of cases at the 3rd level would be the most beneficial resolution to this issue. As such, OTR would like to engage policy makers in discussion of the establishment of a tax court.

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EVALUATION OF ORGANIZATIONAL STRUCTURE, WORKLOAD STATISTICS, PERFORMANCE MEASURES, COMPENSATION REQUIREMENTS, STAFFING LEVELS, TRAINING, QUALIFICATIONS, STAFF DEVELOPMENT FUNCTIONS, AND HIRING PRACTICES

Organizational Strategy

In our efforts to assess the organizational structure's ability to effectively support RPTA's organizational strategy, we discovered that RPTA did not possess or operate on an explicit, discrete, and coherent organizational strategy. We found that RPTA management operates on unwritten operational and tactical plans that are not clearly aligned with the OCFO's strategic objectives and initiatives. In the absence of this strategy, a meaningful evaluation of RPTA's organizational structure to support its organizational strategy could not be executed.

24. We recommend that RPTA develop and implement a clear, bold, and pragmatic organizational strategy through an annual strategic planning process. This strategy should clearly articulate clear choices (what to pursue and what to not, what capabilities and assets to leverage) in operational and tactical terms - in the shape of goals, objectives, policies and procedures- on how to execute the OCFO's strategic objectives and initiatives. RPTA should then continuously assess whether the organizational structure is capable of effectively supporting the execution of this strategy.The strategy should be continuously iterated through the use of a well-defined feedback loop to adapt and ensure alignment with the OCFO's strategic objectives and initiatives in the face of exogenous regulatory, technological, economic, and demographic changes. An organizational structure impact analysis should then be conducted in the event of a recalibration of the organizational strategy.

This finding, as well as several others in this report, seems to demonstrate a lack of understanding of RPTA and how it functions in the city. It completely ignores previous work such as the 2012 Almy, Glaudemans, Denne best practice study and other changes made in 2015 as a result of an intensive review by the CFO to improve operations in the assessment division. This and other recommendations appear more text book than pragmatic. As a result, we strongly disagree with the auditor's assessment that RPTA's operational and tactical plans do not align with the OCFO's strategic objectives and initiatives. RPAD responsibilities, plans and activities perfectly align with strategic objective #7 of the OCFO strategic plan; that objective is to manage a fair and equitable system to fully collect District revenues. This strategic objective was developed to ensure that only the proper amount of taxes are collected, and any amounts owed taxpayers are properly and promptly refunded. RPAD is responsible for annual assessment of all properties in the District of Columbia. This is the core duty of Assessment Division. The division is appropriately structured to perform to perform its duties. Title 47 of District of Columbia Official Code clearly describes various aspects of RPAD tasks in fulfilling its core duties. RPAD consistently meet this goal statutorily, and in the context of the OCFO's overall goals and strategic initiatives. Apart from District of Columbia Official Code, written policies and procedures are available to all staff in RPAD, and are relied upon in carrying out their core duties. These documents have evolved over years and were recently updated as part of the -continuous effort of aligning RPAD business process with achieving its operational goals.

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Standards and Services Unit

The Standards and Services unit lacks a written charter. Consequently, there appears to be a lack of clarity with respect to the unit's position in the organizational structure and its reporting relationships. Two organizational charts that were divergent on the position and reporting relationship of this unit were prepared and provided for review. In the absence of an organizational strategy and a departmental charter, we could not assess the optimal position of this unit within the RPTA's organizational structure.

25. We recommend that RPTA develop a written charter for the Standards and Services Unit and optimally position this unit, taking into account RPTA's organizational strategy.

We strongly disagree with the auditor's assessment of the unit. Standards and Services Unit is fully integrated unit of RPAD. Its functions include development of market rates and ratios used in calibration of appraisal models; management of exemption, mixed-use and class 3-4 programs. Like any other RPAD unit, Standards and Services unit's operation is governed by established RPAD policies and procedure.

CAMA Team

RPTA's assessment functions are undertaken by the following units working collaboratively:

- 3 commercial units;
- 3 residential units;
- Maps and titles unit;
- Standards and services unit; and
- Appeals unit.

RPTA's CAMA-related functions are presently grouped within the Standards and Services Unit, which executes a wide range of functions such as: exemptions, class 3 and class 4 programs, assessments for cooperatives , New York Avenue special assessments, I&E reporting program , and maintaining the policies and procedures manual, assessors reference materials, Pertinent Data Book (published in April),and market analytics books (published in August) containing market norms for rents and expenses, expenses for office building, cap rates, etc. In prior years, the exemptions function was organized as a distinct unit. Given the sweep of his responsibilities, it is unrealistic for this unit leader to exercise adequate oversight over RPTA's CAMA functions.

26. We recommend that RPTA organize the CAMA function into a separate unit. The unit should be adequately staffed. Additionally, RPTA should assign leadership responsibilities for the unit to the current CAMA manager who should report to the Deputy Chief Appraiser.

We strongly disagree with this recommendation. Management and maintenance of the CAMA system is crucial to RPAD technical duties. RPAD is currently exploring direct initiative that will make Vision CAMA more flexible in delivering RPAD objectives. The risk involved with very limited staff with knowledge of CAMA function is well recognized. Organizing CAMA function under a different unit is not necessarily a solution for this challenge in our view. However, we do believe that the current team should be expanded to include two additional professionals with thorough knowledge of Vision CAMA software to mitigate the risk of limited staffing in this area. Resources will be reassigned internally to address this need.

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Appraiser Leadership

Each commercial unit has Senior Appraisers, Staff Appraisers and Assessment Technicians. Senior and Staff App raisers execute the same level of responsibilities. All personnel within each commercial unit report directly to the Unit Supervisor. This arrangement has resulted in very few opportunities for leadership development that is critical to ensure a seamless transition when supervisory positions become vacant.

27. We recommend that RPTA reconfigure reporting relationships within the commercial units by assigning oversight responsibilities of Staff Appraisers and Assessment Technicians to both Supervisors and Senior Appraisers.

We disagree with the auditor's assessment that there a limited leadership development opportunities. RPAD recently added two new units to the existing four appraisal units. The impetuses for additional unit are [in part] to establish property type specialization for each appraisal unit; allow unit supervisors to have better oversight of unit activities by reducing the number of direct report from initial average of ten staff to now average of six staff. Supervisory appraisers are working managers. They are responsible for administrative and technical operations of the unit. Senior Appraiser provides guidance and training to staff appraisers but arenot responsible for their administrative supervision.

Office of Quality Assurance, Best Practices and Innovation

RPTA currently lacks independent quality assurance mechanisms to drive excellence in its assessments. Most quality reviews are limited to Supervisory level reviews. Apparently, little or no effort is expended on compiling best practices in all core processes or applying leading thinking by studying the assessment practices of state and local government entities geared towards utilizing better methods, enhancing the quality of service output, controlling and reducing process waste, reducing processing costs, improving process efficiency, improving productivity, and reducing processing times.

28. We recommend that RPTA establish an Office of Quality Assurance, Best Practices and Innovation to: (a) conduct random and regular independent assessments of quality in all core processes; (b) assess performance against best practices;(c) study the commercial real property assessment practices of state and local government entities across the United States; and (d) engage in process innovation to enhance service deliver. This office must report directly to the Director of RPTA and report yearly to the District's CFO.

We strongly disagree with the auditor's assessment of RPAD having no quality assurance mechanism, and believe that it is indicative of an extreme lack of understanding of the environment and how RPAD operates within the District. The uniqueness of the District of Columbia as "all-in-all" assessment jurisdiction vest oversight authorities [unlike States Assessment Administration] in the District itself. RPAD consistently adheres to IAAO standards and practices in effort to maintain best practices in carrying out its assessment duties. In addition, under the auspices of the Office of the Inspector General, an independent best practice review is conducted on a regular basis to ensure that RPAD stays abreast and adheres to practices reflecting the leading thinking and methodologies in property assessment. Such a review has just occurred. In addition to the OIG's review, OCFO Risk Officer has established periodic risk controls and assessment of RPAD functions. This is a form of direct oversight of RPAD

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business functions that is independent of RPAD itself. Also, the OCFO's Office of Integrity and Oversight also conduct periodic audits of the assessment division to ensure the unit's adherence to its written policies and procedures. In addition, there is extensive external training of appraisers as well as a new appraiser certification program that ensures that all appraisers are exposed to industry best practices. All of these combined efforts ensure that RPAD maintains a focus on quality in its assessments and service delivery. These facts were clearly ignored by the auditor.

Cross-training Assessors

RPTA's assessment units are organized on the basis of the nature of assessments (commercial or residential). When vacancies unexpectedly arise in the commercial unit, work is impacted adversely owing to a combination of RPTA's specialization of assessments functions and the realities of the labor market. While specialization has its benefits, we believe such benefits are far outweighed by the agility that a cross-trained workforce will accord. Additionally, we believe cross-training will yield rich insights stemming from exposure to diverse situations. We also believe it will enhance the quality of both commercial and residential assessments.

29. We recommend that RPTA cross-train assessors in both commercial and residential assessments. This will enhance job enrichment and ensure that the workforce is flexible, agile, and able to effectively deal with uncertainties.

We disagree with this recommendation as it directly contradicts the recommendation of the previous Almy, Glaudemans, Denne best practice consultant's report. Recommendation 3.2.3.3 of OIG [No. 13-2-01 AT] audit of RPAD Commercial Real Property Assessment conducted in November 2012 emphasizes that RPAD assign commercial staff appraiser to specific property. This recommendation is currently the policy of the division. This policy has given the management the ability to deploy staff appraiser to different unit tasked with specific property as a basis for cross training.

RPAD sponsor annual assessor school exposes staff appraisers to various appraisal educations. Classes offered at the Assessor School covers wide scope of appraisal practice and specialty that allows individual appraiser to hone their skill in different types of properties.

Implementing special cross-training program will be contrary to the 2012 OIG audit referenced above. RPAD has implemented this recommendation.

Workload Measurement System

RPTA collects workload data with respect to number of assessments and appeals. There are no credible mechanisms to capture and measure data that link the work of non-appraiser personnel to these two activities. We believe this measurement framework is too simplistic to accurately assess the impact of the workload level on performance of appraisers, employee morale, or the quality of assessments, which are impacted by the quality of available data, the cooperation of the property owner and the complexity of the assessment among other factors.

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30. **We recommend that RPTA develop and implement a credible workload measurement system to evaluate the efficiency and effectiveness of the assessment process.**

We disagree with this recommendation. Appraiser Technicians [non-appraiser personnel] are mainly support staff for the appraisal unit. RPAD continues to conduct annual re-assessment and appeals exercises consistent with the statutory dates [deadlines]. There are sufficient statistical data and bench marks in RPAD procedures to determine the quality of results of these technical assignments.

Strategic and Operational Human Resources Plans

The Office of the Chief Human Resources Officer (OCHRO) has not developed strategic (3-5 year outlook) and operational (outlook of one year or less) human resources plans. The absence of a strategic human resources plan can result in wide gaps between human resources practices and the OCFO's strategic plan thereby undermining OCFO's overall efforts to achieve its strategic goals and that of RPTA. The absence of a human resources operational plan is a key contributing factor to RPTA's inability to meet their future labor needs proactively. An effective human resources operational plan compares present workforce capabilities with future demands and is a useful tool in enhancing organizational agility in the face of uncertainties.

31. **We recommend that OCHRO develop a strategic human resources plan that addresses the needs of RPTA. The plan should:**

- **Assess current human resources capacity;**
- **Forecast human resources requirements;**
- **Perform a gap analysis; and**
- **Develop and document a human resources strategic plan to support the OCFO's strategic plan and the RPTA's organizational and operational strategies. This strategy should include the following:**
  - **Restructuring strategies;**
  - **Training and development strategies;**
  - **Recruitment strategies;**
  - **Hiring strategies;**
  - **Outsourcing strategies; and**
  - **Collaboration strategies.**

We also recommend that RPTA adopt an operational human resources plan that incorporates the following activities:

- **Forecasting labor demand;**
- **Estimating labor supply from existing employees or the external labor market; and**
- **Crafting an appropriate response depending on whether (a) labor demand exceeds labor supply, (b) labor supply exceeds labor demand, and (c) labor demand equals labor supply.**

We strongly disagree with the auditor's assessment of the HR division. The Human Resources Division has seventeen dedicated staff to service the Real Property Tax Administration (RPTA). A team of this size with a broad background and expertise in a

APPENDIX A. AGENCY'S RESPONSE TO THE DRAFT REPORT

variety of Human Resources disciplines can adequately support the human capital needs of this administration.

The OCFO has a restructuring process in place; a training and development strategy; an outsourcing strategy; and a recruitment and hiring strategy.

To address the current and immediate labor demands of RPTA, we are training our workforce to ensure that they have the requisite skills necessary to perform in varies capacities and at advanced levels; we have established and maintain a pipeline of relevant talent; and we have partnered with varies networking groups, universities, social media outlets, and organizations in order to quickly identify needed talent.

Balanced Scorecard

RPTA has not established any organizational level performance or strategic benchmarks, metrics orindicators to manage organizational performance or its human resources functions.

Establishing and measuring key performance parameters is critical to optimizing RPTA operations by driving improvements; focusing resources on strategic and operational priorities; measuring progress against missional goals; making informed decisions; and comparing performance against industry ratios. This will help management to learn from successes and correct failures.

32. We recommend that RPTA adopt measures to link operational activities to its organizational strategic plan and mission. In addition, key human resources metrics, such as Yield Ratios (ratio of offers to acceptance, interview-to-offer ratio, invitations-to- interview ratio, advertisements or contacts-to-applicant ratio), should be established. No set of performance measures or benchmarks are as effective as a balanced scorecard, which is designed to provide a fast and comprehensive view of an organization's business. RPTA personnel should compile an effective set of financial measures and operational measures (on customer satisfaction, internal processes, and the RPTA's innovation and improvement activities) that will put RPTA's strategy and vision at the center of its operations. This tool would drive its personnel to adopt behaviors and invest in actions that are critical to arrive at strategic and operational goals and align them toward an overall vision.

We disagree with the auditor's assessment. The OCFO implemented a new automated applicant tracking system (ATS) in August 2016. One of the purposes of implementing an ATS is to aid in capturing necessary data to develop and track the relevant rations related to HR service delivery within the agency. We have also developed key performance indicators (KPI's) for the assessment division related to the value of assessment changes to the value of assessments appealed.

Structured Employee Development Program

There exists no written and structured employee development plan. The primary purpose of which should be to develop and train the replacements for current RPTA supervisors, managers, and leaders.

33. We recommend that RPTA organize, formalize, and document its employee development program. This should consist of the following phases:

- ***Assessment:*** **This includes identifying an employee's strengths and weaknesses to help employees choose a career that is realistically obtainable and represents**

APPENDIX A. AGENCY'S RESPONSE TO THE DRAFT REPORT

a good fit; and to determine the weaknesses they need to overcome to achieve their career goals. Assessment can be achieved through employee self-assessment by way of skills assessment exercises, an interest inventory, and values clarification; and organizational assessment through situational exercises, such as interviews, in-basket exercises, business games, promotability forecasts, that would allow RPTA to identify people who appear to have high advancement potential.

- ***Direction:* This phase involves determining the type of career that employees want and the steps they must take to realize their career goals.This should be based on a thorough assessment of the current situation. Two key ways to achieve this are individual career counseling and information services, such as skills inventories, career paths and a career resource center.**
- ***Development:* This phase is meant to foster growth and self-improvement necessary to move up in RPTA and involves taking actions to create and increase skills to prepare for future job opportunities. This can be achieved through programs such as mentoring, coaching and job rotation, which includes: project rotation, partial rotation, cross-functional rotation, temporary rotations, and interdepartmental mentoring.**

We disagree with the auditor's assessment of the agency's development plans. OCFO annually develops and updates Individual Development Plan for each of its employees which outlines the employee's career goals and determines a path to advancement. Additionally, it offers targeted job specific training, as well as other developmental courses to allow employees to gain expertise and advance in their careers.

Structured Training Program

We observed that there is little or no correlation between RPTA's training programs and its strategic needs reflected in the OCFO's strategic plan. Additionally, we observed the following in relation to training design:

- Little or no individual needs assessment is performed prior to training design;
- Little or no organizational analysis is performed prior to training design;
  Little or no task (or job) analysis to determine Knowledge, Skills, and Abilities (KSA) required to perform individual functions prior to training design; and Training goals are not clearly articulated.

There also exists no clear criteria by which training effectiveness is measured. All these can result in a workforce that is ill equipped to accomplish the OCFO's strategic goals.

34. We recommend that RPTA develop a structured training program that is based on the following:

- **An effective assessment of individual needs;**
- **An organizational analysis; and**
- **A job analysis of KSA for each function.**

Also, RPTA should clearly articulate training goals for each individual and establish criteria by which the effects of training can be measured.

We strongly disagree with the auditor's assessment of our programs and the characterization of our staff as ill-equipped. First of all, the KSA's for each function are established prior to

APPENDIX A. AGENCY'S RESPONSE TO THE DRAFT REPORT

recruitment and hiring of the employee and form the basis of the determination of qualification of each applicant. Regarding individual; training needs, managers in the division consistently and at least on an annual basis evaluate employees' training needs. Appraisers within RPAD have the opportunity to attend Assessor School sponsored by RPTA annually. Apart from the Assessor school RPAD employees participate in webinars and organized seminars and educational training on specialized topics on as need basis. In addition to these training opportunities, the evaluation allows for mentoring and coaching from more seasoned staff. Recently, RPAD established an Education Certification Program for RPAD with three levels of designation. The program has been well received, with appraisers receiving increased levels of designation. The auditor was provided information on the enhanced training and certification programs but appears to have ignored it.

Job Descriptions

From interviews with RPTA personnel, we understood that job descriptions are not accurately reflected in the related vacancy notices. This could hinder the ability of RPTA to fill vacancies timely. Also, failure to accurately describe job responsibilities can result in new hires being unprepared for their duties and requiring extra training to fulfil their jobs.

35. We recommend that RPTA undertake a detailed job analysis prior to crafting position descriptions for vacancy notices. An effectively conducted job analysis will help the human resources department to: generate a higher-quality pool of job applicants by making it easy to target and screen qualified job applicants, and to make selection choices, determine training needs, and compare the relative worth of each job's contributions to RPTA's overall performance, which can be key determinants of the job's pay level. This analysis should include the following:

- **Task inventory analysis: This involves interviews, surveys, and preparing a knowledge, skills, and abilities matrix.**
- **Critical incident techniques: This is where supervisors and other employees generate behavioral incidents of job performance. This step involves identifying the major dimensions of a job ,generating critical incidents of behavior that represent high, moderate, and low levels of performance on each dimension and ensuring that these incidents are viewed the same way by other employees.**
- **Position analysis questionnaire: This involves determining the degree to which 194 different job elements are involved in performing a particular job.**
- **Functional job analysis : This is a technique that mobilizes information on certain aspects of the job, including :**
  - **The effect the job incumbent has on other people, data, and things;**
  - **Methods and techniques the job incumbent uses to perform the job;**
  - **Equipment used by the job incumbent; and**
  - **Materials and services produced by the job incumbent.**

We strongly disagree with the auditor's assessment. The OCFO conducts a job analysis prior to developing and finalizing any OCFO position description. Position descriptions are reviewed and updated every three years. In addition, prior to beginning any RPTA recruitment search, HR meets with the hiring manager to ensure that there have been no changes and/or updates to the written position description, to determine the unit's highest priorities, and to identify specific and needed skillsets.

APPENDIX A. AGENCY'S RESPONSE TO THE DRAFT REPORT

Succession and Contingency Plans

We noted that RPTA does not have written succession and contingency plans for the key roles of Director and Chief Appraiser. The cost of not designing or implementing an effective succession plan program is the enhanced risk of hiring and promotion mistakes, loss of institutional knowledge, and the adverse impact of turnover in key roles, which includes the risk of discontinuity of key strategies and operational initiatives.

36. We recommend that RPTA design document, and implement effective succession and contingency plans. This will ensure seamless continuity of RPTA strategy and operations in the event of an unanticipated vacancy in either role. The succession plans should be approved by senior management. To ensure accountability, responsibility for this key program should be embodied within the position description for each role. Key metrics should be designed to periodically monitor and evaluate the program.

The OCFO Human Resources Division is currently working to implement a OCFO-wide succession plan to ensure that the OCFO is positioned for business continuity by identifying and developing replacement talent for executive leaders and key staff.

Hiring Processes

RPTA has experienced significant delays in finding permanent placements for key positions. As examples, the position of Chief Appraiser was not filled permanently for approximately a year, the position of Supervisory Appraiser for Litigation and Appeals was not filled permanently for approximately eight (8) months, and the Position of Director has been filled temporarily since December 2015. Additionally, two (2) appraiser positions in the commercial unit have been unfilled for a year and one has been vacant for approximately 6 months. The Agency's hiring practices may be divorced from market realities and therefore reactive rather than proactive. Permanently unfilled positions can result in a surge in employee workload and work backlogs. This could undermine employee morale and compromise an organization's internal control system.

37. We recommend that the OCFO undertake a comprehensive review of its hiring practices and processes with respect to RPTA. Deficiencies that may be inducing these delays should thereafter be addressed. OCFO should design and implement a recruiting and hiring strategy that is proactive and anticipatory- one that will effectively and

We disagree with the assessment that HR is reactive in nature. The OCFO/HR does take proactive approach to recruiting and hiring. We have established recruitment sources, a pipeline of potential candidates, and have established relationships with the organizations such as the Appraiser Institute and International Association of Assessing Officers (IAAO). In the event that hiring is delayed, it is not because OCFO HR practices are divorced from market realities. Rather, the delay is because of market realities and a current lack of availability of highly qualified candidates.

Attachment 14b

DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

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

April 2017

OIG

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

WE ARE WASHINGTON DC

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

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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

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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.

CHRA, PC.

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.

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.

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.

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.

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.

GKA's Response

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

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.

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, 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 maintain 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.

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.

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.

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

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

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.

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 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.

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;

- 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.

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.

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.

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.

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 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.

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.

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.

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.

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