JOINT PUBLIC OVERSIGHT ROUNDTABLE ON

The Operations of the Office of Tax and Revenue

Before the
Committee of the Whole
Council of the District of Columbia
Chairman Vincent C. Gray
-and the-
Committee on Finance and Revenue
Councilmember Jack Evans, Chair
Council of the District of Columbia

November 15, 2007
1:00 p.m.
Council Chambers, John A. Wilson Building

Testimony of
Natwar M. Gandhi
Chief Financial Officer

Good afternoon, Chairman Gray, Chairman Evans, and members of the Council. I am here to present testimony on the operations of the Office of Tax and Revenue in the wake of the massive fraud that was allegedly perpetrated over several years by certain OTR employees. I am joined here by Ben Lorigo, whom I have appointed the interim Director of the Office of Tax and Revenue.

First and foremost I want to express my deep regret that this OTR scandal has occurred. As you can imagine, I am personally outraged by it. As you know OTR falls under the CFO's authority and I take full responsibility. However, it is not enough to say that I take responsibility; I must also take action to repair what has been broken and to regain the public trust that has been so badly shaken. To that end, I have moved quickly to hold people accountable, appoint interim leadership, continue internal investigations to identify additional OCFO employees who are responsible, and immediately change the business processes so as to establish new controls and procedures.

In addition to these immediate changes, to inform our long-term strategy, we are inviting two independent agencies (the D.C. Inspector General and the

Internal Revenue Service) to look at OTR operations and internal controls to reform and recommend changes. We are also seeking expert advice from other sources. For example, I have already asked Judge Stanley Sporkin (Ret.) to review OTR operations and to suggest ways to strengthen our controls. Judge Sporkin spent twenty years with the SEC, serving seven as the Director of the Division of Enforcement. He then served for five years as the General Counsel to the CIA. He was appointed to the Federal Bench in 1985 where he served as a United States District Judge for the District of Columbia for fourteen years. All of these actions are being taken to assure that such fraudulent activities do not happen again.

The scheme, as we understand it, involved persons both internal and external to the Office of Tax and Revenue (OTR). These individuals allegedly conspired to defraud the Government through creating fraudulent real property tax adjustment refunds and directing them to "dummy" corporations.

Real property tax refunds were allegedly initiated by an employee of the Adjustment unit within the Real Property Assessment Services Division. Inconsistent with best practices, these refunds were approved only by the

manager of that same unit, regardless of the size of the check. This practice was in direct violation of my explicit directive that required all Real Property Tax Refunds in excess of $150,000 be personally approved by the Director of Real Property Tax Administration (see attached 1997 memorandum) and Refunds in excess of $250,000 be approved by the Director of OTR. After a check was cut, it was not mailed but held for pick up by the manager of the Adjustment unit.

Although experts say the most frequent means of uncovering this type of fraud is a tip or by accident, we also must accept that this criminal enterprise was able to thrive because of a profound failure of internal management controls at the OTR. Not only must processes be in place, but managers and others must be alert to behavior that might be signs of wrong-doing – e.g., displays of wealth and extravagant gift-giving.

While data analysis should always be performed, it does not necessarily tell you much. In this regard, I would like to make several points regarding the report in today's Washington Post about the DC Auditor's report in the summer of 2004. First, the Washington Post article leaves the mistaken impression that the Auditor's report warned specifically about refunds.

However, a close reading of the report shows that the warning pertained to the projections of overall real property tax collections, not refunds – the concern was that we were overestimating real property tax collections. Second, the history of refunds and real property tax collections shows that refunds did indeed nearly double between 2001 and 2007, but total real property tax revenue grew even more, at 128 percent. (Note that it is best to look at the refunds over several years, as a refund does not necessarily track the year a tax bill was paid. As the DC Auditor noted, the District moved from triennial to annual assessments during this time.) Third, real property tax refunds did not grow as a share of total real property tax revenue from 2001 to 2007. In fact they declined, from 1.7 percent to 1.4 percent. The point is that because of the rapid pace of growth in property tax revenue over the period it would be difficult to tell from these data alone that something was awry just by looking at the growth in aggregate refunds over the years. To be fair, neither was this the point of the DC Auditor's report.

Internal controls rest on three legs – people, processes, and systems. We are focusing on all three legs.

First, I took swift, deliberate, and appropriate action against all OTR employees involved and responsible, including OTR leadership, to hold them accountable and send a clear message that this type of activity, and lax management, will not be tolerated. As of today, fifteen OTR employees, including OTR's most senior managers, have resigned or been removed. We continue our internal review to identify additional OCFO employees who should be held accountable for lack of oversight and poor business processes.

Second, I have appointed Ben Lorigo, Director of the Office of Integrity and Oversight, to be interim Director of the Office of Tax and Revenue, while we engage in a national executive search for permanent leadership for OTR. Ben was the head of internal audit for me when I was OTR. As the head of OIO since 2000 when I became CFO, Mr. Lorigo created an audit and investigative organization that is responsible for assuring the integrity, efficiency and effectiveness of the operations of the entire Office of the Chief Financial Officer, and his office has assisted many Mayoral agencies and worked closely with the District's Inspector General on a number of audit issues.

Mr. Lorigo joined OTR upon his retirement from the Internal Revenue Service, where he capped a 30 year career in federal law enforcement in several agencies. At the IRS, Mr. Lorigo was the senior executive in charge of the IRS Internal Security Division, which was responsible for maintaining the integrity of the Internal Revenue Service, one of the most sensitive and complex organizations in the federal government. In this capacity, Mr. Lorigo directed approximately 500 criminal investigators nationwide. A recognized leader in the federal investigative community, Mr. Lorigo also served on the training committee for the President's Council on Integrity and Efficiency, and briefed senior federal government executives on threats to federal tax administration and representing the IRS on integrity and security issues before Congress.

Mr. Lorigo has made 4 interim appointments so far in the tax office, to the positions of:

- Director of Operations,
- Director of Real Property Tax Administration,
- Chief Assessor, and
- Chief of Assessment Services Division.

All managers, even interim managers, will be held accountable for the successful implementation of internal controls and restoration of the public's confidence in our tax system. We will also soon initiate a national search for new permanent managers who are aggressive and proactive about their oversight and supervision.

Third, we are re-establishing and communicating clear written procedures on the preparation, approval, and issuance of real property tax adjustment refund checks, and providing the necessary training and cross-training. The procedures will describe the required supporting documentation and/or justification required to generate a refund. The procedures will clearly designate approval authority, and delineate senior management review as well as signatory authority for all refunds.

Initially, all real property tax refunds $10,000 and over are being reviewed by upper OTR management, and refunds under $10,000 will be spot-checked. A special unit reviews all details of real property tax refunds before they are finally authorized and paid. A refund will be held until an authorized user releases it.

Fourth, we are expanding our audit staff assigned to review and audit the tax operations. The additional staff will have specialized experience in auditing tax systems and will be on the ground full-time at OTR. We are consulting with the US Treasury Inspector General for Tax Administration for expertise in this area.

Fifth, we decided (as stated in our FY 2008 Budget Testimony) to embark on a "mid life" refresh and update of all main OCFO financial systems including ITS. The revised ITS must have a special emphasis on real property taxes. It may revert to a stand-alone real property tax system.

Let me assure you that in our view, the District's finances remain sound, and that this fraudulent activity does not compromise our ability to carry out District government functions or policy initiatives approved by the Council and the Mayor. Further, we placed calls to all three rating agencies to let them know about the situation. None expressed concern about the long-term financial viability of the District, or that it would affect the District's ability to pay its debt obligations in full and on time. So my assessment is that this will not lead to a downgrade in our bond ratings. (See attached 11/12/07 Bond Buyer Article – D.C.'s Office of Tax and Revenue Scam Won't Hurt Ratings).

Further, we are working diligently with the District's outside auditors on the closing of the fiscal year that ended last September 30. Based on our work so far, including our discussions with our auditors, it is our view that we will be able to produce the District's FY 2007 CAFR on time. Despite the additional work that will be prudent under these circumstances, we and the auditors agree that we can meet the deadline.

As for me, Mr. Chairman, I have heard from some in the community who have asked whether I would consider resigning from my position as CFO. As I have already indicated publicly, OTR's senior leadership resigned because I no longer had confidence that they could handle the complex tax matters that are the basis of OTR's mission. I have heard from the Mayor and the members of the Council, including you, Mr. Chairman, and Councilmember Evans, that you still have confidence in my ability to run the Office of the CFO. When I hear from the Mayor that he no longer has confidence in me, when I hear from the collective Council that they agree with the Mayor, that is the time when I too should resign. That day has not come, and despite the depth of sorrow that I feel personally for this very sorry situation, I am not a quitter, and it is not my intention to walk away

from this problem until I bring every possible resource to bear to solve it once and for all on behalf of the District's taxpayers. I am confident that working with the Council, the Mayor and my OCFO colleagues, we will re-build our tax administration and make it worthy of our nation's capital. I look forward to working with the Mayor and Council and the teams that we will assemble to address this matter together.

In conclusion, Mr. Chairman, though this scandal is unprecedented in its scope and deeply appalling, the District's overall financial viability and stability is strong and sound. My OCFO family is dealing with the painful reality that the actions of a criminal few in our organization has damaged the great reputation that the hard work, dedication and integrity of the rest of our organization has earned. Please be assured that we will continue to take remedial actions as aggressively as we have since the day this scandal became known. Our goal is to regain the public trust and confidence in our tax system.

Mr. Lorigo and I would be pleased to take any questions you may have.

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

Natwar M. Gandhi
Deputy Chief Financial Officer

Office of Tax and Revenue

MEMORANDUM

To: W. Henry Riley, III
Director, Real Property Tax Administration

From: Natwar M. Gandhi
Deputy Chief Financial Officer

Subject: Delegation of Authority

Date: July 21, 1997

I hereby delegate to Wm. Henry Riley, Director, Real Property Tax Administration my authority to act on behalf of the Office of Tax and Revenue in matters relating to the administration of the Real Property Tax Program.

I further authorize Mr. Riley to delegate this authority to subordinates, as is necessary to properly administer the ongoing real property tax programs of the Office of Tax and Revenue.

Attached is a chart which outlines types of documents requiring supervisory approval and the level at which approval will be required.

441 4th Street, N.W.; Suite 400S, Washington, D.C. 20001 202/727-6083

ACTION AND/OR DOCUMENT	SUPERVISORY APPROVAL LEVELS
1ST LEVEL APPEAL (ASSESSOR LEVEL)	ASSESSOR/FIELD SUPERVISOR/CHIEF ASSESSOR
2ND LEVEL APPEAL (BRPAA LEVEL)	ASSESSOR/FIELD SUPERVISOR/CHIEF ASSESSOR
3RD LEVEL APPEAL (SUPERIOR COURT OR MEDIATION)[1]	ASSESSOR/FIELD SUPERVISOR/CHIEF ASSESSOR
RECORDATION OF PLATS/SUBDIVISIONS	CARTOGRAPHER/SUPERVISOR, M&T/SUPPORT UNIT[2]
TAX DEEDS (HOMESTEAD)-5 YEAR TAX ABATEMENT	CLERK/BILLING SUPERVISOR/CHIEF ASD[3]
EXEMPTIONS (REAL PROPERTY)	CLERK/ATTORNEY ADVISOR/CHIEF ASSESSOR
TAX REFUNDS	CLERK/JOURNAL VOUCHER SUPERVISOR/CHIEF, ASD
WAIVER OF PENALTY AND INTEREST ON FORMS FILING FOR INCOME/EXPENSE, MIXED USE, OR EXEMPTIONS	CLERK/SUPERVISOR, M&T/SUPPORT UNIT/CHIEF ASSESSOR
WAIVER OF PENALTY AND INTEREST FOR LATE PAYMENT OF REAL PROPERTY TAX	CLERK/JOURNAL VOUCHER SUPERVISOR/CHIEF, ASD
ALL REFUNDS OVER $150,000	APPROVAL BY DIRECTOR, REAL PROPERTY TAX ADMINISTRATION (IN ADDITION TO APPROVALS AS REQUIRED ABOVE)
ALL REFUNDS OVER $250,000	APPROVAL BY DEPUTY CHIEF FINANCIAL OFFICER, OFFICE OF TAX AND REVENUE (IN ADDITION TO APPROVALS AS REQUIRED ABOVE)

[1]SUMMARY REPORTS OF 1ST/2ND/3RD LEVEL APPEAL CHANGES TO DIRECTOR, RPTA AND DEPUTY CHIEF FINANCIAL OFFICER.

[2]M&T/SUPPORT-DENOTES THE MAPS AND TITLES/SUPPORT UNIT.

[3]CHIEF, ASD-DENOTES CHIEF, ASSESSMENT SERVICES DIVISION

THE BOND
Start your 2-wee

WASHINGTON

Email this article »

D.C.'s Office of Tax and Revenue Scam Won't Hurt Ratings

by Peter Schroeder *Posted 11/12/07*

WASHINGTON — The recent tax scam involving employees in the District of Columbia's Office of Tax and Revenue may be grabbing local headlines, but it appears it will not damage the district's reputation on Wall Street.

Federal agents revealed last week that several district employees were involved in an elaborate scheme, stealing more than $20 million over six years via phony property tax refund checks. Tax assessment manager Harriette Walters and her co-worker, Diane Gustus, were arrested Wednesday and each charged with 10 felony counts of conspiracy and fraud.

Investigators also said some employees received gifts and money from Walters to perhaps overlook the fraudulent paperwork. Additional employees could have been involved, they said.

The scheme, which was carried out in an office that falls under the oversight of district chief financial officer Natwar Gandhi, but was discovered by an outside bank employee, has threatened to besmirch Gandhi's sterling reputation.

Gandhi said in a brief interview Friday that he has asked the district's inspector general, and is in the process of asking the Internal Revenue Service's inspector general, to examine the district's Office of Tax and Revenue and recommend improvements in policies and procedures. The district inspector general examination could start as soon as this week.

Gandhi said he is dedicated to redeeming the district's image. "This is a matter of great anguish to me, I've been sick to my stomach ... but we are determined to repair the damage that has been done to our image and reputation. We cannot let that define us," he said. "I do believe that the city is a very good investment risk, and a very good investment opportunity."

Despite the scandal, analysts do not expect it to negatively affect the district's overall financial reputation.

"We don't expect this to have any credit rating implications," said John Sugden, an analyst with Standard & Poor's. "I think this is probably more of an isolated incident, and what typically happens in this situation is that they look at their operations and improve them."

Karl Jacob, also with Standard & Poor's, said the city is taking actions similar to those typically taken by a government facing this kind of scandal.

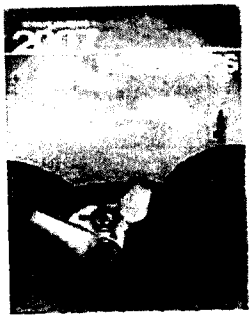
"It's taking the form now that you would expect it to," he said.

Both analysts also noted that, bad publicity notwithstanding, $20 million is not a large enough amount to adversely affect the district's financial

ADVERTI
Experi
RADIA
Continuing t
of excellence
market s
IPR
UPCOMING CONFERI
The Bond Buyer's 5t
Finance Conference
November 15 - Nov
Hilton New York
New York, NY
6th Annual Deal of
Dinner
December 11 - Dec
Ritz Carlton NY Bat
New York, NY
The Bond Buyer's 1
Public Finance Conf
February 10 - Febru
Doral Tesoro Hotel
Ft. Worth/Alliance,
ADVERTI

E-Licensing
Reprints

ADVERTISEMENT



standing. Its budget for fiscal 2006 was $7.6 billion.

District officials echoed the rating agencies, and said that discussions between the city and Wall Street have not indicated any blow to the its credit. The district is rated A-plus by both Fitch Ratings and Standard & Poor's, and A1 by Moody's Investors Services — the highest it has ever been.

Sources within the CFO's office said they do not expect the scandal to have an impact on the city's disclosure for upcoming bond issuances.

Despite reassurances from the market, the scandal threatens to diminish Gandhi's reputation.

Credited by many as being largely responsible for pulling the district from financial ruin in the mid-90s to its current status of fiscal fortitude, Gandhi called the scandal "a major management failure."

Gandhi fired Office of Tax and Revenue director Sherryl Hobbs Newman, who he hired in 2005, as well as three other managers last week, and called for agency employees to work hard to remove the tarnish now covering the once-respected group. Ben Lorigo, former executive director of the Office of Integrity and Oversight, was promoted to replace Hobbs Newman as deputy chief financial officer in charge of the office.

The District Council will delve into the scandal at a hearing on Thursday. And Rep. Thomas Davis, 3rd, R-Va., the top Republican on the House Oversight and Government Reform Committee, urged committee leaders to investigate the matter.

Stand o
the c

THE BON
ONI
BOND AC

Educa
Webc
Downlo
Whitep
Repo
and m

Article Reprint permissions »

Email this article »

OTHER TOP HEADLINES
S&P Puts ACA on Watch
Tallahassee Opts Out of Ambac Insurance
Niagara Falls, N.Y., Readies $39M for Public Safety Complex
O'Hare, N.Y.C. Deals Stand Out in Shortened Calendar
Puerto Rico Governor Signs Bill to Extend Tax Incentives

YOU ARE ENTITLED TO DISPLAY AND SEARCH THE CONTENT OF THIS SERVICE AT THE TERMINAL ACCESSING OUR SITE, AND TO DOWNLOAD ARTICLES, SOLELY FOR YOUR OWN PERSONAL USAGE. NO PART OF THIS SERVICE OR CONTENT CONTAINED HEREIN MAY BE OTHERWISE RETRANSMITTED, REDISTRIBUTED, COPIED, STORED, DOWNLOADED, ABSTRACTED, DISSEMINATED, CIRCULATED OR INCLUDED AS PART OF ANY OTHER PRODUCT OR SERVICE.

© 2007 The Bond Buyer and SourceMedia Inc., All rights reserved. Use, duplication, or sale of this service, or data conta
as described in the subscription agreement, is strictly prohibited. Trademarks page.

Client Services 1-800-221-1809, 8:30am - 5:30pm, ET