

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

**AUDIT OF THE DISTRICT'S UNEMPLOYMENT  
COMPENSATION CHECK PROCESSING  
PROCEDURE AND RELATED BANK  
ACCOUNT RECONCILIATION PROCESS**

**OFFICE OF INTEGRITY AND OVERSIGHT**



**THIS REPORT IS AN INTERNAL DOCUMENT FOR OFFICIAL PURPOSES ONLY AND MAY NOT BE  
RELEASED WITHOUT THE PRIOR WRITTEN APPROVAL OF THE EXECUTIVE DIRECTOR, OIG**

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



**Office of Integrity and Oversight**

**MEMORANDUM**

**TO:** Lasana Mack, Deputy Chief Financial Officer/Treasurer  
Office of Finance and Treasury

**FROM:** William J. DiVello, Executive Director  
Office of Integrity and Oversight *William J. DiVello*

**DATE:** July 14, 2010

**SUBJECT:** Final Report on Audit of the District's Unemployment Compensation Check Processing Procedure and Related Bank Account Reconciliation Process (**Report OIO No. 10-2-02-OFT**)

---

Attached is the final report summarizing the results of the audit by the Office of Integrity and Oversight (OIO) on the District's Unemployment Compensation Check Processing Procedure and related Bank Accounts Reconciliation Process. This audit was conducted following an alert from investigative authorities that fraudulent or duplicate Unemployment Compensation checks were being cashed.

Our report contains four recommendations for necessary action to correct the described deficiencies. We received a response to the draft report from the Associate Treasurer, Banking and Operations, Office of the Finance and Treasury (OFT), on June 30, 2010. We consider actions planned and taken by OFT to be responsive to the recommendations. However, OFT did not provide a completion date for planned actions for recommendation 1. We request that OFT provide us with a completion date for recommendation 1 within 30 days of the date of this report. The full text of OFT's response is included at Exhibit C.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact Mohamad Yusuff, Director of Internal Audit, at 202-442-8240 or me at 202-442-6433.

Thank you for your cooperation and support.

cc: Natwar M. Gandhi, Chief Financial Officer, Government of the District of Columbia  
Angell Jacobs, Chief of Staff, Office of the Chief Financial Officer  
Anthony F. Pompa, Deputy Chief Financial Officer, Office of Financial Operations and Systems  
Cyril Byron, Associate CFO, Economic Development and Regulations Cluster

**AUDIT OF THE DISTRICT'S UNEMPLOYMENT  
COMPENSATION CHECK PROCESSING  
PROCEDURE AND RELATED BANK  
ACCOUNT RECONCILIATION PROCESS**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>EXECUTIVE DIGEST</b>	
OVERVIEW .....	i
CONCLUSIONS.....	i
SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS...	i
<b>INTRODUCTION</b>	
BACKGROUND.....	1
OBJECTIVES, SCOPE AND METHODOLOGY.....	4
<b>FINDINGS AND RECOMMENDATIONS</b>	
<b>FINDING 1. REVIEWING THE CHECK REGISTER FOR UNEMPLOYMENT     CLAIMS .....</b>	<b>5</b>
<b>FINDING 2 RECONCILING OUTSTANDING CHECKS.....</b>	<b>6</b>
<b>FINDING 3 ISSUING DUPLICATE CHECKS .....</b>	<b>7</b>
<b>EXHIBITS</b>	
<b>EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM         AUDIT .....</b>	<b>8</b>
<b>EXHIBIT B. COPIES OF CHECKS.....</b>	<b>9</b>
<b>EXHIBIT C: OFFICE OF FINANCE AND TREASURY RESPONSE TO         DRAFT REPORT.....</b>	<b>10</b>

---

## ACRONYMS

---

ACH Automatic Clearing House  
DOC District Online Compensation System  
DOES Department of Employment Services  
IVR Interactive Voice Response  
OCTO Office of the Chief Technology Officer  
OFOS Office of Financial Operations and Systems  
OFT Office of Finance and Treasury  
OIO Office of Integrity and Oversight  
SOAR System of Accounting and Reporting

---

## EXECUTIVE DIGEST

---

### OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of the District's Unemployment Compensation Check Processing and related Bank Accounts Reconciliation Process to determine whether irregularities exist and assess the adequacy and effectiveness of existing internal controls. This audit was conducted following an alert from investigative authorities that fraudulent or duplicate Unemployment Compensation checks were being cashed. We would like to note the prompt action taken by OFT officials to address the deficiencies relative to unemployment compensation check processing.

### CONCLUSIONS

With regards to the three fraudulent or duplicate checks that were allegedly paid by M & T Bank (M & T), our audit disclosed that:

- The three (3) checks that were provided to the Office of Finance and Treasury (OFT) as fraudulent checks were not paid by M & T, based on information provided by M & T. M& T also stated that it only paid checks that were valid and appeared on the issuance file. Further, M & T provided us copies of the valid paid checks.
- The fraudulently duplicated checks had the same check numbers as the valid checks; however, the payee and the amounts were different.

We also concluded that the current check processing and reconciliation process needs to be strengthened. For example, the check register of unemployment claims sent to OFT is not reviewed on a daily basis and outstanding checks dating back to 2005 were still listed on M&T bank statements. There was also an incident in which duplicate checks were issued by the OFT's Disbursement Unit due to a new printer jamming error. As a result of these conditions there is a risk that an error, irregularity, or fraud could occur without being detected.

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed 4 recommendations to OFT management for necessary action to correct the described deficiencies. The recommendations center on:

- Designating an employee to verify or compare the check and Automatic Clearing House (ACH) files sent by the Contractor with the information in the District Online Compensation System (DOC) on a daily basis;

---

## EXECUTIVE DIGEST

---

- Taking immediate steps in conjunction with the Office of Financial Operations and Systems (OFOS) and the Department of Employment Services (DOES) to send a list of all outstanding checks to M&T requesting that the checks be removed from future statements;
- Ensuring that the Disbursement Unit employees comply with the updated procedures that have been put in place following this incident; and
- Finalizing the decision on whether to continue with the current lease of the new printer.

### MANAGEMENT ACTION

During discussions with OFT personnel, it was also brought to our attention that DOES is working with OFT to set up an alternate way for paying unemployment claims. The proposed method will require that all claims be paid through debit cards or ACH. This would eliminate the use of checks. Also, a “new bank account” has been opened with the Wachovia Bank for the Unemployment Checks; and the old bank account at M&T has been closed. We were also informed by OFT officials that the new printer control defect has been corrected.

We received a response to the draft report from OFT’s Associate Treasurer, Banking and Operations, on June 30, 2010. We consider OFT’s actions, planned and taken, to be responsive to the noted recommendations. However, OFT did not provide a completion date for planned actions for recommendation 1. We request that OFT provide us with a completion date for recommendation 1 within 30 days of the date of this report. The full text of OFT’s response is included at Exhibit C.

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

---

## INTRODUCTION

---

### BACKGROUND

The Department of Employment Services (DOES) collects unemployment insurance (UI) pursuant to DC Code 51-119 (d) (1). All employers doing business in the District of Columbia with an employee base of one or more are liable to the District Unemployment Compensation program. Liability also applies to household employers who pay at least \$500 in aggregate wages in any calendar year.

DOES is responsible for accepting and processing unemployment claims filed by unemployed workers. The claims can be filed using the DOES Online Compensation System (DOC) or by Interactive Voice Response (IVR). Approved claims are processed and an electronic file is transmitted to the Office of Finance and Treasury (OFT) Disbursement Unit via the Office of the Chief Technology Officer (OCTO) Data Center to be printed and mailed.

The DOC system is managed by a Contractor (On Point). During our discussion with DOES officials, we were informed that the following procedures are used for processing checks for approved claims:

- a) A check issuance file listing all approved claim recipients is transmitted to OCTO to be loaded into the System of Accounting and Reporting (SOAR). DOES completes a Control Total Sheet and sends to OCTO Production Control, and OCTO loads the file into SOAR.
- b) A check issuance file is also created to be transmitted to M & T Bank.
- c) The Check Register and check files are transmitted to OFT's Disbursement Unit.
- d) OFT's Disbursement Unit prints the checks which are mailed out the same day.

### Existing Controls

#### **"Positive Pay" Exception Report approval and rejection by DOES**

The bank (M&T Bank) is required to provide DOES with a "Positive Pay" Exception Report on a daily basis by 10:00 a.m. as stipulated in their current contract with OFT. The "Positive Pay" is a *fraud prevention service* that prevents duplicate check numbers from being paid against the District account. DOES is required to review the daily Exception Report and approve or reject the checks listed on the Report by 3 p.m. If the bank does not hear from DOES, all items on the Exception Report are rejected by the Bank. The unemployment checks are valid for 30 days.

---

## INTRODUCTION

---

The Disbursement Specialist at DOES, on a daily basis, performs the following:

- Reviews the daily Exception Report and compares and validates it with the data in the District Online Compensation System (DOC);
- Approves the checks for payment after the recipient data and amount are matched with information in the DOC system;
- Rejects checks with information that is not in the DOC system or those that are flagged for rejection;
- Make copies of the checks and Exception Report for filing; and
- Updates the Exception Report with the approvals and rejections online by logging onto M&T bank website by 3 p.m.

### **Bank Reconciliation by OFOS**

OFOS is required to reconcile all District bank accounts on a monthly basis. The following process is used by OFOS to reconcile the Unemployment Compensation bank account:

- OFOS receives Banks statements and Issue Reports which lists all outstanding, cancelled and paid checks.
- At the end of the month, the Reconciliation Unit reconciles the bank statement to SOAR.
- Any irreconcilable items are sent to the DOES Cluster Controller to make adjusting entries.
- The DOES Cluster Controller is in charge of making adjusting entries and researching the items that cannot be reconciled.

### **OFT Disbursement Unit**

OFT's Disbursement Unit prints all checks issued by the District. During our visit (internal auditor and internal security investigator) to the facility, we observed the process and noted the following:

- Access to the check printing room requires access cards and is limited to the Printing Coordinator and the Disbursing Manager. We were informed that the new site at SW will have cameras.
- Check Stocks are generic check stubs (blank forms) and only become valid checks when they are printed.
- The DC logo and CFO's signature reside on the printer software.
- When there is any printing jams or errors, the OFT Printing Coordinator can request the issuing agency for a new check issue list.
- Damaged checks are disposed of by shredding the checks immediately.

---

## INTRODUCTION

---

### Check Printing:

- When the electronic check file is received in the Disbursement Unit's print room, the Printing Coordinator loads the required check forms and starts the printer.
- When the printing is completed, the checks are loaded onto a folding/sealing machine. The machine has a counter that counts all the checks.
- The Printing Coordinator is required to reconcile the check register with the folding/sealing machine count to ensure that the totals match.
- The checks are then loaded onto a Post Office Mail Bin to be picked up at the end of the day for mailing.

### Fraudulent Check Issue

With regards to the three alleged fraudulent or duplicate checks that were allegedly paid by M & T, our audit disclosed that:

- The three (3) checks that were provided to OFT as fraudulent checks were not paid by the Bank, based on information provided by M & T. M & T also stated that they only paid checks that were valid and appeared on the issuance file. M & T provided us copies of the valid paid checks.
- The fraudulently duplicated checks had the same check numbers as the valid checks; however, the payee and the amounts were different. Table 1 below shows the fraudulently duplicated checks (**bold**) versus the valid checks paid by the bank. (Copies of checks attached – **Exhibit B**)

We found the following deficiencies, which if corrected, should strengthen the existing controls:

- 1) There is no evidence that the check register of unemployment claims sent to OFT is reviewed on a daily basis;
- 2) Outstanding (non-reconciling) checks dating back to 2005 are still listed on M&T bank statements sent to OFOS for reconciliation;
- 3) Duplicate checks were issued by the Disbursement Unit due to new printer jamming error.

---

## INTRODUCTION

---

**Table 1 – List of Fraudulent and Valid Checks**

Check Number	Payee	Amount	Date	Paid/Not Paid
<b>5876642</b>	<b>Gerald Allen Burnett</b>	<b>\$809.90</b>	<b>12/31/2009</b>	<b>Not Paid by Bank</b>
5876642 (Valid)	Henry Rogers	\$384.00	6/1/2009	Paid
<b>6375258</b>	<b>Christopher Williams</b>	<b>\$489.00</b>	<b>1/10/2010</b>	<b>Not Paid by Bank</b>
6375258 (Valid)	Ariel A. Saiquita	\$250.00	2/18/2010	Paid
<b>6375257</b>	<b>Christopher Williams</b>	<b>\$489.00</b>	<b>1/10/2010</b>	<b>Not Paid by Bank</b>
6375257 (Valid)	Lisa M. Brown	\$197.00	2/18/2010	Paid

Source: OFT

### **OBJECTIVES SCOPE AND METHODOLOGY:**

The primary objectives of this audit were to:

- Examine current procedures used for processing unemployment checks to determine adequacy and effectiveness of internal controls; and
- Review bank reconciliation process for the Unemployment Compensation Bank Account to determine if irregularities exist.

To accomplish our objectives, we conducted interviews with the relevant officials at DOES, OFT, OFOS, and M & T. We also reviewed relevant documentations and performed a walk-through of the OFT Disbursement Unit to observe check processing and the security of the facility.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

## FINDINGS AND RECOMMENDATIONS

---

<b>FINDING 1:</b>	<b>REVIEWING THE CHECK REGISTER FOR UNEMPLOYMENT CLAIMS</b>
-------------------	---

During our discussions with DOES, OFOS and OFT, we were advised that no one was assigned to review or reconcile the check register or compare it with the DOC data. Although there is a monthly bank reconciliation performed by OFOS, no one is designated to verify or compare the check issuance file and ACH files produced by the Contractor (On Point) with the information in the DOC system on a daily basis.

In view of the fact that DOES has contracted with a vendor to create the check files, and no DOES or OFT employee reviews the file, it is essential that a District employee be assigned this task. This lack of review could result in fraudulent claims being included in the file sent to OFT. There is also a risk that an error could occur without being detected. Lastly, the time between the check issue date and the monthly reconciliation does not lend itself to the quick detection of any anomalies.

### **Recommendation**

- 1) We recommend that the Deputy Chief Financial Officer/Treasurer, OFT, designate an employee to verify or compare the check and ACH files sent by the Contractor with the information in the DOC system on a daily basis.

### **OFT's Response**

OFT concurred with the recommendation and indicated that the Associate Chief Financial Officer (ACFO) of the Economic Development and Regulation Cluster (EDRC) commits to assigning resources and technology to fully implement the recommendation.

### **OIO's Comment**

We consider the joint actions of OFT and EDRC to be responsive to the recommendation.

---

## FINDINGS AND RECOMMENDATIONS

---

<b>FINDING 2: RECONCILING OUTSTANDING CHECKS</b>
--

We found that outstanding checks dating back to 2005 are still listed on M&T bank statements sent to OFOS for reconciliation. This condition has resulted in a long list of un-reconcilable items being listed on this account after reconciliation. During our discussion with OFOS official, we were informed that outstanding checks were actually cancelled or stopped but the bank had not been informed by DOES. The number of outstanding checks is causing delay in researching items that require attention during reconciliation and could delay the detection of fraudulent items.

### **Recommendation**

- 2) We recommend that the Deputy Chief Financial Officer/Treasurer, OFT, take action in conjunction with OFOS and DOES to send a list of all outstanding checks to M&T bank requesting that the checks be removed, as appropriate, from the future statements.

### **OFT's Response**

OFT agreed with the recommendation and indicated that it is coordinating appropriate actions with the Office of the Chief Information Officer (OCIO) to clean up M&T's outstanding checks and related reconciliation actions with OFOS and DOES, to effectively implement the recommendation.

### **OIO's Comment**

We consider the joint actions of OFT and EDRC to be responsive to the recommendation.

---

## FINDINGS AND RECOMMENDATIONS

---

<b>FINDING 3: ISSUING DUPLICATE CHECKS</b>
--

The matter of issuing duplicate checks was brought to our attention by OFT on March 23, 2010. Based on discussions with OFT officials, the “new” printer used to print unemployment checks, duplicated approximately 19 checks in the check run. This occurred due to the printer jamming 19 times and duplicating checks each time it jammed. Also, OFT print coordinator did not compare the input file check register with the folding/sealing machine counter, which resulted in the duplicate checks going undetected. The agency’s Operating Procedures used by the Disbursement Unit require that the Print Coordinator reconcile the check register total with that of the folding/sealing machine counter after every print job. Because of “**Positive Pay**” contract in place, OFT believes that no loss will occur to the District if duplicate checks are erroneously printed.

OFT officials informed us of the action already taken to ensure that there is no repeat of this error in the future. The action taken includes updating procedures requiring the reconciliation of the check register and the folding/sealing machine count to be reviewed and signed off by the Disbursement Manager.

The “new printer jamming incident” disclosed that all the controls of the new printer were not turned on by the manufacturer. This defect has now been corrected.

### **Recommendations**

We recommend that the Deputy Chief Financial Officer/Treasurer, OFT:

- 3) Formalize the Disbursement Unit procedures that have been put in place following this incident.
- 4) Finalize the decision on whether to continue with the current lease of the new printer;

### **OFT’s Response**

OFT has taken appropriate actions to implement a safer payment process (debit cards or ACH) in conjunction with DOES. In addition, OFT will continue using the new printer while documenting the printer’s performance for the first contract year.

### **OIO’s Comment**

We consider OFT’s actions responsive to the recommendations.

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

<b>Recommendations</b>	<b>Description of Benefits</b>	<b>Type of Benefit</b>	<b>Agency Reported Estimated Completion Date</b>	<b>Status<sup>1</sup></b>
1	Ensures that errors or irregularities are promptly detected	Compliance and Internal Control	TBD	Open
2	Improves efficiency by reducing the number of items to be reconciled	Compliance and Economy and Efficiency	July 31, 2010	Open
3	Ensures that printer or other errors are detected immediately	Compliance and Internal Control	June 30, 2010	Closed
4	Improves efficiency	Compliance and Economy and Efficiency	June 30, 2010	Closed

<sup>1</sup> This column provides the status of a recommendation as of the report date. For final reports, "Open" means management, and the OIO agree on the action to be taken, but action is not complete. "Closed" means management has advised that the action necessary to correct the condition is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has agreed to neither take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B: COPIES OF CHECKS



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF EMPLOYMENT SERVICES  
BENEFIT PAYMENT ACCOUNT

5876642

02-17  
311

\$ 809.90

DATE 12/31/2009

VOID 30 DAYS FROM DATE

EIGHT-HUNDRED-NINE AND 90/100

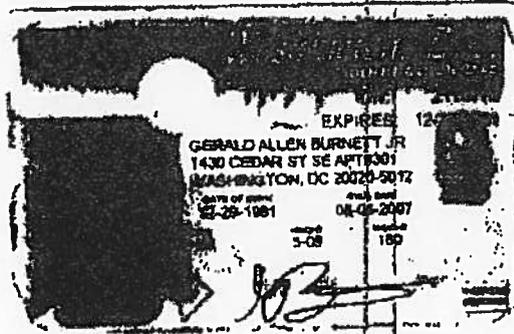
DOLLARS

PAY TO THE ORDER OF GERALD ALLEN BURNETT

M & T BANK

WEEK END: 12/28/2009

⑈5876642⑈ ⑆01⑆⑆00⑆73⑆⑆6⑆000000⑆30485⑈⑆



5876642 → 8207731486  
7/p 38400  
6/8/09

EXHIBIT B: COPIES OF CHECKS

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF EMPLOYMENT SERVICES  
BENEFIT PAYMENT ACCOUNT

5876642 62-17  
311

ACCOUNT NO: 426 11 6741 DATE: 06/01/2009

DOLLARS	CTS
	\$384.00

VOID 30 DAYS FROM DATE

\* THREE HUNDRED EIGHTY FOUR DOLLARS \*\*\*\*\*

PAY TO THE ORDER OF HENRY ROGERS

WEEK END: 05/30/2009

M & T Bank

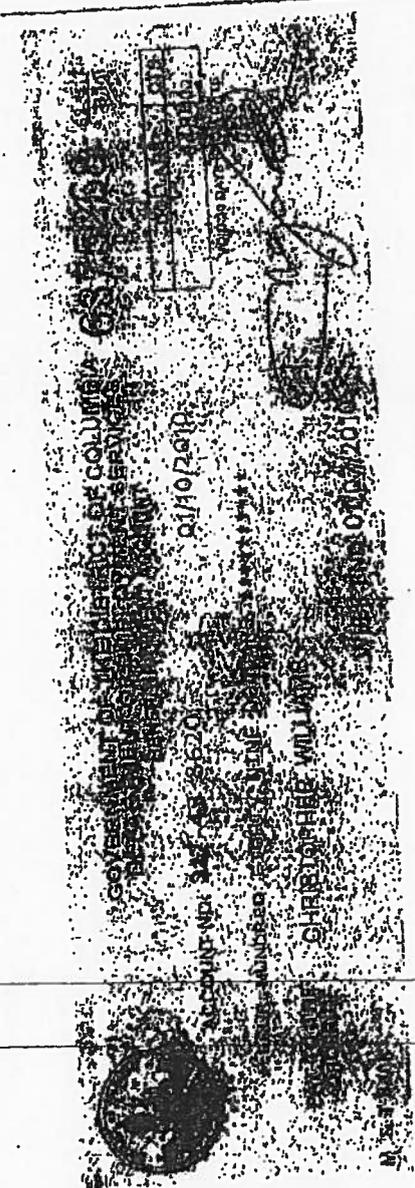
⑈ 5876642⑈ ⑆03⑆100⑆173⑆⑆1000000⑆130485⑈

6708 \$384.00 0462)256074974 (NAVY FCU 0605 FC08

DO NOT WRITE WITHIN OR ENCLOSE BEHIND THIS LINE

Posting Date 2009 Jun 08  
Bank # 096  
Branch # 06552  
Research Seq # 8207731486  
Account # 61000000130485  
Dollar Amount \$384.00  
Check/Store # 5876642  
DB/CR DB  
Record Type # 01

EXHIBIT B: COPIES OF CHECKS



⑆5810E100000019⑆E610011E0⑆ ⑆85254E9⑆



8218966128



256.00 → 2/25/10

EXHIBIT B: COPIES OF CHECKS

THIS DOCUMENT IS PRINTED IN TWO COLORS. DO NOT ACCEPT UNLESS BLUE AND BROWN ARE PRESENT.

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF EMPLOYMENT SERVICES  
BENEFIT PAYMENT ACCOUNT

6375258 82-17  
311

ACCOUNT NO: 230 95 5534 DATE: 02/18/2010

DOLLARS	CTS
\$25000	

VOID 30 DAYS FROM DATE

PAY TO THE ORDER OF ARIEL A SAIQUITA

M & T Bank WEEK END: 02/23/2010

02/24/10 06575 0099 H0000065  
116375258 1031100123161000000130485

DO NOT WRITE STAMP OR SIGNATURE BELOW THIS LINE

DO NOT SIGN IF SIGNATURE IS ABSENT.

HOLD AT ANGLE TO NEW SECURITY MARK.

Posting Date 2010 Feb 25  
Bank # 096  
Branch # 06552  
Research Seq # 8218966120  
Account # 61000000130485  
Dollar Amount \$250.00  
Check/Store # 6375258  
DB/CR DB  
Record Type # 01

EXHIBIT B: COPIES OF CHECKS


**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**DEPARTMENT OF EMPLOYMENT SERVICES**  
 BENEFIT PAYMENT ACCOUNT

**6375257** 01-17 317  
 ACCOUNT NO: 287 48 8620 01/10/2010  
 \$ FOUR HUNDRED EIGHTY NINE DOLLARS \$489.00  
 PAY TO THE ORDER OF **CHRISTOPHER WILLIAMS**  
 W & T Bank WEEK END: 01/07/2010

PB375257M 104480017316800000130485

12809218 01-13-2010 111914052<

PAY TO THE ORDER OF  
 UNITED CENTRAL BANK  
 FOR DEPOSIT ONLY  
 FEDERAL LETTERS INC.  
 P.O. BOX 10000  
 WASHINGTON, DC 20001

DON'T WRITE, STAMP OR SIGN THIS FRONT SIDE LINE  
 (301) 826-2000  
 ENCLOSE HERE

Posting Date 2010 Jan 14  
 Bank # 096  
 Branch # 06552  
 Research Seq # 8217273064  
 Account # 61000000130485  
 Dollar Amount \$489.00  
 Check/Store # 6375257  
 DB/CR DB  
 Record Type # 01

1/15/2010  
 8217273064

2 different amts

1/14/10 → 489.00 - not paid

3/3/10 2/25/2010

\$197 → paid under

8219188070

EXHIBIT B: COPIES OF CHECKS

THIS DOCUMENT IS PRINTED IN TWO COLORS. DO NOT ACCEPT UNLESS BLUE AND BROWN ARE PRESENT.

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF EMPLOYMENT SERVICES  
BENEFIT PAYMENT ACCOUNT

6375257 62-17  
311

ACCOUNT NO: 230 35 7740 DATE: 02/18/2010

DOLLARS	CTS
\$197	00

\* ONE HUNDRED NINETY SEVEN DOLLARS \*\*\*\*\*

VOID 30 DAYS FROM DATE

PAY TO THE ORDER OF LISA M BROWN

M & T Bank 03-02-10 WEEK END: 02/13/2010

01:34 PM \$197.00

PP 08/13

6375257 0310007306100000130485

DO NOT WRITE, STAMP OR ENDORSE BELOW THIS LINE

DO NOT ACCEPT IF SIGNATURE IS ABSENT  
ENDORSE HERE

LISA M BROWN

Posting Date 2010 Mar 03  
Bank # 096  
Branch # 06552  
Research Seq # 8219188070  
Account # 61000000130485  
Dollar Amount \$197.00  
Check/Store # 6375257  
DB/CR DB  
Record Type # 01

Check  
Paid

---

**EXHIBIT C: OFFICE OF FINANCE AND TREASURY RESPONSE TO  
DRAFT REPORT**

---

Office of Finance and Treasury



**MEMORANDUM**

**TO:** William J. DiVello, Executive Director  
Office of Integrity and Oversight (OIO)

**THRU:** Lasana K. Mack, Deputy Chief Financial Officer and Treasurer  
Office of Finance and Treasury (OFT) *Lasana Mack*

**FROM:** Clarice Wood *CAW*  
Associate Treasurer, Banking and Operations

**DATE:** June 30, 2010

**RE:** Response to Draft Report on Audit of the District's Unemployment Compensation Check Processing Procedure and Related Bank Account Reconciliation Process (Report OIO No. 10-2-02-OFT)

---

This memo is in response to the recommendations and management actions made based on the Office of Integrity and Oversight (OIO) audit of the District's unemployment compensation check processing procedures and related bank account reconciliation process. There were four (4) items to which OFT is asked to respond. Below please find each action item and the OFT response:

- 1) Designating an employee to verify or compare the check and ACH files sent by the Contractor (On Point Technology, Inc.) with the information in the District Online Compensation System (DOC) on a daily basis.

**Response:**

OFT agrees that an approval process of the contractor produced check file and ACH file needs to be performed by a District employee prior to their release to OFT and the Bank for production. Otherwise, this poses a vulnerability to the validity and correctness of the District's checks and ACH payment system.

As this is a process that must occur prior to receipt of the data by OFT and the Bank, I requested a response from Cyril Byron, the ACFO of the Economic Development Regulation Cluster, under which the unemployment benefits agency is supported. He stated that the agency concurs with the recommendation. The agency commits to

---

**EXHIBIT C: OFFICE OF FINANCE AND TREASURY RESPONSE TO  
DRAFT REPORT**

---

assigning and dedicating the appropriate technology, reporting and/or resource(s) to address the recommendation.

- 2) Taking immediate steps in conjunction with the Office of Financial Operations and Systems (OFOS) and the Department of Employment Services (DOES) to send a list of all outstanding checks to M&T Bank requesting that the checks be removed from future ARP Statements;

**Response:**

OFT is working with Lillian Copelin from OCIO to coordinate the required clean-up file that will be sent to M&T Bank. Lillian is moving this process forward as she received the June 2010 reconciliation file from M&T Bank and submitted it for processing through reconciliation. Post reconciliation, the OCIO will assist OFOS and DOES in identifying any items that M&T reflects as outstanding but are really Paid, Voided, Cancelled, Stopped, or Stale Dated and submit a list of the true status to M&T for update to the bank records. The items identified inaccurately as Outstanding should not appear on the reconciliation file we receive from M&T Bank in July.

- 3) Ensuring that the Disbursement Unit employees comply with the updated procedures that have been put in place following the incident.

**Response:**

OFT management had taken steps to ensure compliance with the procedures. Also, an additional procedure has been implemented to catch duplicate check production. The procedure is to record the volume count from the folding machine and matched it against the volume count on the check register. This insures that the number of checks the register states should print is the number that actually printed. The OCE' printer imaging function has been installed properly, which will allow OFT to quickly determine the extent of the problem if it were to occur again.

- 4) Finalizing the decision on whether to continue with the current lease of the new printer.

**Response:**

The decision has been made to continue under the current Oce' printer contract. All contract issues are being documented as the District does have an option to cancel the contract at the end of the first award year. After the last printer error resolution, there have not been any further duplicate checks printed.

**Management Action:**

- 1) Alternative payment of unemployment claims through debit cards or ACH.

**Response:**

OFT has been working with DOES to implement a debit card payment program to replace check disbursement. Today, DOES disburses via ACH (direct deposit) or check. Due to the departure of the program director, the implementation of a debit card has been put on hold until September. DOES has discovered some problems with the ACH file,

---

**EXHIBIT C: OFFICE OF FINANCE AND TREASURY RESPONSE TO  
DRAFT REPORT**

---

which is a critical component to the debit card funding process, that needs to be addressed. A meeting was held between OFT and DOES program and OCFO staff to begin addressing the ACH file problems. Weekly meeting are scheduled until the problems are resolved.

It is OFT's position that a debit card program is the best method to deliver the unemployment benefits. Eliminating check issuance will resolve such problems as the attempted fraud, stop payments, reissuance of lost check, reconciliation of the checks, storage, costs of printing, paper stock, and postage.

2) New Bank account

**Response:**

The new account is open. Wachovia Bank is still testing the checks. We have attempted two check run tests from OnPoint to date that have failed. Once this is completed, the account can begin usage. The old account at M&T Bank will be reconciled by OFOS and closed shortly thereafter.

cc: Cyril Byron, DCRA  
Lillian Copelin, OCIO  
Joseph Cobb, OFT