

**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

**Date:** November 8, 2011

**SUBJECT:** Final Report: Audit of the Vendor Center Unit Operations at the Office of  
Finance and Treasury (Report No. OIO-11-01-12-OFT)

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Attached is the final report summarizing the results of our audit of the Vendor Center Unit Operations at the Office of Finance and Treasury (OIO-11-01-12-OFT). This audit was included in our FY 2011 Audit Plan for the Office of Finance and Treasury.

Our report contains two recommendations for necessary action to correct the described deficiencies. We received your response to the draft report on October 20, 2011. We consider actions planned and taken by OFT to be responsive to the recommendations. 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 herein as Exhibit B.

Thank you for your cooperation and support.

cc: Clarice Wood, Associate Treasurer of Banking and Operations, OFT

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

**AUDIT OF THE VENDOR CENTER UNIT  
OPERATIONS AT THE  
OFFICE OF FINANCE AND TREASURY**

**OFFICE OF INTEGRITY AND OVERSIGHT**



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**AUDIT OF THE VENDOR CENTER UNIT OPERATIONS AT THE OFFICE OF  
FINANCE AND TREASURTY (OFT)**

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## ACRONYMS

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ACH	Automatic Clearing House
AFO	Agency Fiscal Officer
DOU	Disbursement Operations Unit
HFP	Hold for Pick-up
OFOS	Office of Financial Operations and Systems
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
OPRS	Office of Pay and Retirement Services
POC	Payment Operations Center
SOAR	System of Accounting and Reporting

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## EXECUTIVE DIGEST

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### OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of the Vendor Center Unit Operations. This audit was included in OIO's FY 2011 Audit Plan for the Office of Finance and Treasury (OFT).

### CONCLUSIONS

Our audit disclosed weak internal controls in the following areas:

- Handling checks returned to the Vendor Center by the U.S. Postal Service and other entities.
- Retention of supporting documentation for transactions processed by the Vendor Center Unit (Payment Operations Center).

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

We directed 3 recommendations to OFT management for necessary action to correct the described deficiencies. The recommendations center on:

- Developing procedures for handling returned checks that include timely tracking and reconciliation.
- Researching transactions that did not have support to determine validity; and
- Reviewing and revamping document retention procedures and ensuring that they are communicated to appropriate staff.

### MANAGEMENT ACTION

During the course of the audit, OFT Management informed us that they were taking action to address the above cited deficiencies. On October 20, 2011, we received OFT's response to the draft report, concurring with the recommendations. The full text of OFT's response is at Exhibit B.

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## INTRODUCTION

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### BACKGROUND

#### Payment Operations Center (POC)

The Treasury's Payment Operations Center (POC) formerly known as the Vendor Center was set up to ensure that vendors and other service providers are paid for services rendered to agencies and manage the relationships between agencies and vendors. Specifically, these responsibilities include: overseeing the payment process, reducing the average age of outstanding invoices, providing accurate information to vendors, and resolving matters pertaining to the timing of payments. The Vendor Center was merged with the Disbursement Unit in FY 2010 and renamed the "Payment Operations Center."

Before the merger with the Vendor Center, the Disbursing Operations Unit (DO) was responsible for printing and distributing the District's checks and ensuring that vendors, employees, and others receive their payments timely. The DO was also responsible for Holding Checks for Pick-up and initiating the Check Cancellation process.

All the functions previously handled by the Vendor Center and the Disbursement Unit are now handled by the Payment Operation Center that include following functions:

- Hold for Pick-up Checks
- Check Cancellations/Reissues
- ACH Cancellation and Reversal
- Conversion of Check Payment to Wire Payments
- Check printing/Distribution

#### Hold For Pickup of Checks

Following an audit by OIO in November 2008, OIO recommended that OFT curtail the use of Code 50 (a procedure in SOAR) and reduce the use of Hold for Pickup by agencies. To comply with the recommendation, OFT issued a directive in October 2009 eliminating the use of Code 50 by agencies. In addition, the Office of Financial Operations and Systems OFOS disabled Code 50 in the financial system and only allowed access to the Office of Pay and Retirement Services (OPRS) and OFT. All requests for holding checks for pickup have to be approved by the POC after receipt of a completed Hold for Pickup Request form (HFP form). The POC staff then code the payment in the financial system so that it can be held for pickup. The directive also requires that any request by agencies to have checks held for pickup must fall under four limited circumstances as follows:

- Court order and legal settlements;
- Supplemental Payroll;

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## INTRODUCTION

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- Imprest Funds; and
- Small business severe hardship.

The Hold for Pickup Request Forms must be completed and signed by the Agency Fiscal Officer (AFO) of the requesting agency and sent to OFT.

OFT provided a report of all checks held for pickup in FY 2009 and 2010. The following schedule shows the total number of checks held for pickup in both fiscal years.

**Table 1: Checks Held for Pickup in FY 2009 and 2010**

<b>Fiscal Year</b>	<b>Number of Checks</b>	<b>Total Amount</b>
2009	57,401	\$ 899,698,822.14
2010	13,574	\$ 160,177,685.73
Total	70,975	\$ 1,059,876,507.87

Source: POC/OFT

### **Check Cancellation and Reissue**

The POC is authorized to cancel and reissue checks when requested. Checks can be cancelled, stopped, or stopped and reissued based on the instruction of the requesting agency. In order to cancel/reissue checks, the requesting agency's authorized personnel are required to complete a cancellation form or written request stating reason for cancellation and whether a new check needs to be issued.

When the Check Cancellation/Stop Payment/ Reissue requests are forwarded to the POC, the staff conducts a research of the check to be cancelled in the online system of the relevant bank to determine whether the checks have been paid. If it is determined that the checks have not been presented to the bank, the POC staff proceeds with cancellation and issue a new check if requested.

OFT provided a list of all checks cancelled and reissued in FY 2009 and 2010. The following schedule shows the total number of checks cancelled and reissued in both fiscal years.

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## INTRODUCTION

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**Table 2: Checks Cancelled/Reissued in FY 2009 and 2010**

Fiscal Year	Number of Checks Cancelled/reissued	Total Amount
2009	1147	\$29,448,070.12
2010	816	\$20,519,475.72
Total	1963	\$49,967,545.84

Source: POC/OFT

### **ACH Cancellation and Reversal**

The POC assists agencies with canceling and reversing ACH payments to maintain accuracy and proper reconciliation of the System of Accounting and Reporting (SOAR). The processing of cancellations and reversals returns the funds to the paying agency's GL. Requests for ACH cancellations and reversal forms are received from the District's agencies via email or fax. The POC staff records the ACH cancellation or reversal in the SOAR system, as well as contact the issuing banking institution in order to place a cancellation or reversal against the payment. Once processed, the agency's forms are signed by the POC Manager and a copy returned to the agency along with all supporting documents.

### **Conversion of Check Payments to Wire Payments**

The POC can also convert payments originally entered into SOAR to be disbursed as a check to a wire payment. This is done to achieve same day delivery of payments in extremely urgent cases. Once the POC accepts a wire request from an agency, it is the responsibility of the POC to insure that the SOAR automatic payment process has not or will not occur.

All wire requests are submitted via facsimile or email on the OFT Wire Request form and approved by a certifying officer from the corresponding agency's finance office. The POC manager or a Certifying Officer within the OFT in the case of his/her absence must sign the Wire Request form validating that the payment has been held in SOAR.

The Cash Management and Investments team complete the processing of the wire. The original wire request and any attached documentation are filed.

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## INTRODUCTION

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### **Check printing/Distribution**

The POC receives requests to print checks and check registers on a daily basis from District agencies through the Office of Chief Technology Officer (“OCTO”) and the PeopleSoft Payroll System in the Office of Pay and Retirement Services (“OPRS”). It is the responsibility of the originating District agency to record and approve the payment transaction in SOAR or PeopleSoft Payroll System, prior to transmitting the information to POC. When the checks are printed, POC is also responsible for distributing them as requested by the agencies.

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

The primary objectives of this audit were to:

- Determine whether the Vendor Center Unit has effective internal controls and is operating efficiently;
- Determine whether check stocks, cancelled and reissued checks are adequately safeguarded from unauthorized use; and
- Assess employee compliance with required policies and procedures and applicable regulations.

To accomplish our objectives, we conducted interviews with the relevant officials at OFT and the Payment Operations Center. We also reviewed relevant documentation which included financial documents and policies and procedures. We selected samples of Checks Held for Pick-up, Cancelled/Reissued Checks and ACH as well as Wires processed during FY 2009 and 2010 for testing to determine compliance.

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.

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**FINDINGS AND RECOMMENDATIONS**

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**FINDING 1: HANDLING OF RETURNED CHECKS**

Our audit disclosed that the POC does not reconcile or track returned checks once they are returned to the agencies. During our review of cancelled/reissued checks, we found that some checks are returned by the U.S Postal Service as undeliverable. We were informed by the POC staff that neither tracking nor reconciliation is performed to determine whether the returned checks are eventually cancelled or reissued. This breakdown in internal control is due to the lack of procedures for handling checks that are returned by the U.S. Postal Service or other entities. This would eliminate the possibility that the returned checks are cashed without being detected immediately.

**DISCUSSION:**

The POC receives returned checks that are issued through the SOAR system. Any checks that are issued by other systems such as the Integrated Tax System (ITS) are returned directly to the issuing agency such as Office of Tax and Revenue (OTR). During our discussions with the POC Manager, we were informed that the POC periodically sends the returned checks they receive to the agencies that had processed the checks for further action. The agencies can then decide to cancel or request for the checks to be reissued. We were also informed that a yearly reconciliation is performed by the Office of Financial Operations and Systems (OFOS). Although a yearly reconciliation is conducted by OFOS, we believe that OFT should put in place procedures that ensure that all returned checks are accounted for in a timely manner.

**Recommendation:**

We recommend that the Deputy Chief Financial Officer, OFT:

1. Develop procedures for handling returned checks that includes timely tracking and reconciliation and report the result of your first reconciliation to OIO.

**OFT's Response**

OFT agrees with OIO's recommendation and stated that OFT will develop a new business process and procedures to track the handling of returned checks.

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## FINDINGS AND RECOMMENDATIONS

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### OIO's Comment

The action taken by OFT is responsive to the recommendation and when fully implemented should address the deficiency. An action completion date should be provided to OIO.

<b>FINDING 2      DOCUMENT RETENTION</b>
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Our audit disclosed that the POC did not have adequate procedures to ensure that supporting documentation for all transactions were retained. This resulted in the inability of POC staff to provide all requested documents. We were informed that this occurred because of changes in staffing and misplacement of documents during the move to the new location. We were therefore unable to verify that all transactions tested were valid or properly approved.

### DISCUSSION:

During our review of transactions, we selected 60 Hold for Pickup transactions to review compliance. Out of the 60 records selected, 3 that had been approved by the POC in the system but were missing the completed HFP form as required by the OFT Directive to agencies. Also, 5 transactions out of the 60 cancelled and reissued check transactions we reviewed did not have all the supporting documentation showing reason for the cancellation/reissue. In addition, the POC could not locate supporting documentation for 10 wire transactions totaling approximately \$7.2 million. When we discussed the missing documentation with OFT officials they stated that it was due to the fact that there had been a high turnover in POC staff in the last two years. They also stated that this, coupled with the fact that the office had recently moved to their new location, could have contributed to the misplaced documentation. We, however, believe that OFT should research and locate the missing documentation to ensure that the transactions that did not have support were properly approved and are valid payments.

### Recommendation

We recommend that the Deputy Chief Financial Officer, OFT:

2. Research the transactions that did not have support to determine their validity and report the results to OIO;

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## FINDINGS AND RECOMMENDATIONS

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3. Review and revamp the document retention procedures and ensure that they are communicated to appropriate staff.

### **OFT's Response**

OFT agrees with OIO's recommendations and has located the missing supporting documentation. In addition OFT has established a new filing system and purchased a scanner for imaging all documents.

### **OIO's Comment**

The action taken by OFT is responsive to the recommendations and OIO has verified the missing supporting documentation.

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

Recommendations	Description of Benefits	Type of Benefit	Agency Reported Estimated Completion Date	Status <sup>1</sup>
1	Ensures that check s are accounted for and reconciled in timely manner.	Internal Control	TBD	OPEN
2	Ensures that all transactions are valid and properly approved.	Internal Control	10/20/11	CLOSED
3	Improves adherence to document retention procedures	Internal Control	10/20/11	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 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.

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**EXHIBIT B – AGENCY RESPONSE**


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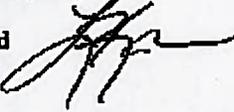
GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER



Office of Finance and Treasury

**MEMORANDUM**

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

**FROM:** Lazana K. Mack, Treasurer and  
Deputy Chief Financial Officer 

**DATE:** October 20, 2011

**SUBJECT:** Office of Finance and Treasury's (OFT) Audit of the Vendor Center Operations  
(Report No. OIO: 11-01-12-OFT)

This memo is in response to the OIO audit findings and recommendations, per the OIO draft audit report dated September 29, 2011, for the operations of the former Vendor Center unit. The Vendor Center was consolidated with the Disbursement Unit and the combined functions are now operating as the Payment Operations Center (POC). Below please find the OFT responses and actions taken to eliminate all deficiencies noted.

<b>Recommendation 1: Handling of Returned Checks</b>
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1. Develop procedures for handling returned checks that includes timely tracking and reconciliation and report the result of your first reconciliation to OIO.

**Response:**

POC will develop a new business process and procedure to track the handling of returned checks. It will include the development of a POC returned check form to be completed weekly, by agency, with the returned check information and the reason for the return. It will be emailed to each agency Controller, AFO, ACFO and, as appropriate, other agency financial personnel. Each agency will be required to respond with a disposition for each check within 10 business days, which could include: updated address in SOAR to mail the returned check; check cancellation or reissue form; or, a request to return the check to the agency for delivery. The response shall be signed by the Controller, AFO, ACFO or a position of equivalent responsibility. If there is no response within 10 business days, the checks will be cancelled by the POC. This procedure will be formalized and sent to OIO for review before distribution to the agencies.

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**EXHIBIT B – AGENCY RESPONSE**

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**Recommendation 2: Document Retention**

2. Research the transactions that did not have support to determine their validity and report the results to OIO.
3. Review and revamp the document retention procedures and ensure that they are communicated to appropriate staff.

**Response:**

2. Completed. All transaction support requested has been located and is ready for OIO's review.
3. The Vendor Center from 2009-2010 experienced an entire personnel turnover. The files and documentation were not managed in a consistent manner. However, POC staff has been hired and the unit has stabilized. A new filing system was created by type of document and month. In addition, a monthly CFO Solve report is reconciled to the actual paperwork to ensure that all documents are accounted for. The POC manager signs off on the monthly reconciliation. This complies with the recommendation to revamp the document retention procedure.

Moreover, OFT has purchased a scanner and is obtaining the licenses to begin imaging all documents. This will allow POC to begin scanning the paper documents and creating an index for research. It is POC goal to move from paper files to images in this fiscal year to further improve the document retention procedures.

cc: Clarice Wood  
Robert Stephens  
Joseph Cobb  
Jeanne Hoover