

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

**AUDIT OF WIRE TRANSFER PROCESSING AT THE
OFFICE OF FINANCE AND TREASURY**

OFFICE OF INTEGRITY AND OVERSIGHT



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



Office of Integrity and Oversight

MEMORANDUM

TO: Jeffrey Barnette, Interim Deputy Chief Financial Officer and
Interim Treasurer

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

DATE: September 12, 2012

SUBJECT: Audit of Wire Transfer Processing at the Office of Finance and Treasury
(Report No. OIO-12-01-04-OFT)

Attached is the report summarizing the results of our audit of Wire Transfer Processing at the Office of the Finance and Treasury (OIO- 12 -01-04 OFT). This audit was included in OIO's Audit Plan for OFT.

Our report contains two recommendations for necessary action to correct the described deficiencies. We received your response to the draft report on August 16, 2012. We consider actions planned and taken by OFT to be responsive to the recommendations. The full text of OFT's response is included herein as Exhibit B.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have any questions or need additional information, please call me at (202) 442-6445 or you may contact Mohamad Yusuff, Internal Audit Director at (202) 442-8240.

Attachment

cc: Natwar M. Gandhi, Chief Financial Officer
Angell Jacobs, Chief of Staff, OCFO
Kathy Crader, Chief Risk Officer, OCFO
Clarice Wood, Associate Treasurer of Banking and Operations, OFT

AUDIT OF WIRE TRANSFER PROCESSING AT OFT

TABLE OF CONTENTS

	Page
EXECUTIVE DIGEST	
OVERVIEW	i
CONCLUSIONS.....	i
SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS...	i
INTRODUCTION	
BACKGROUND.....	1
OBJECTIVES, SCOPE AND METHODOLOGY.....	3
FINDINGS AND RECOMMENDATIONS	
FINDING 1. DISBANDING OF THE SUNGARD TREASURY WORKSTATION SYSTEM FOR WIRE TRANSFER TRACKING.....	4
FINDING 2. OPERATING PROCEDURES UPDATE.....	6
EXHIBITS	
EXHIBIT A. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT.....	7
EXHIBIT B. AGENCY RESPONSE TO DRAFT REPORT	8

ACRONYMS

ACH	Automatic Clearing House
CIM	Cash & Investments Manager
CMA	Cash Management Analyst
CMU	Cash Management Unit
DHS	Department of Human Services
DMU	Debt Management Unit
EBT	Electronic Benefits Transfers
EFT	Electronic Funds Transfer
OFOS	Office of Financial Operations and Systems
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
POC	Payments Operation Center
SOAR	System of Accounting and Reporting
TWS	Treasury Workstation

EXECUTIVE DIGEST

OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of Wire Transfer Processing at the Office of Finance and Treasury (OFT). This audit was included in OIO's Audit Plan for OFT.

CONCLUSIONS

Our audit disclosed internal control weaknesses in the following areas:

- Disbanding of the Wire Transfer Tracking System without an appropriate replacement; and
- Operating Procedures Manual not updated following changes made in processing wire transfers.

SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

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

- Developing or purchasing a database system that can interface with the Financial Management System to track wire transfers and enable monitoring and data analysis by management; and
- Reviewing and updating procedures to reflect the changes made in the processing of wire transfers in FY 2010 and ensuring that these changes are duly communicated to appropriate staff to assure operational consistency.

MANAGEMENT ACTION

During the course of the audit we apprised OFT management about the above cited deficiencies and OFT advised us that they were in the process of updating the Procedures Manual. Management also informed us that they were taking appropriate actions to address the lack of a tracking system for wire transfers and were already looking into possible systems that could be acquired when funds are identified.

INTRODUCTION

BACKGROUND

Cash Management Unit

The Office of Finance and Treasury's (OFT) cash management responsibilities includes the daily processing and management of the District of Columbia's ("District") cash funds, including daily projections and planning of funding requirements and Electronic Funds Transfer (EFT) management.

The Cash Management Unit (CMU) is responsible for preparing cash position reports for cash handling and investment planning purposes. The CMU also prepares two cash position reports (Working Funds Cash Position and End of Day Report) to monitor cash flows in the District's main operating accounts and to determine daily funding requirements.

The CMU is responsible for transmitting funds electronically once proper paper work has been received and signed off by a certifying officer with the relevant supporting documentation.

Electronic Funds Transfers

Wire Transfers

Requests for wire transfers originate from Office of Financial Operations and Systems (OFOS), Debt Management Unit (DMU), Payment Operations Center (POC), Electronic Benefits Transfers (EBT) or other District agencies. Irrespective of the source of the wire transfer requests, they must bear the signature of an authorized approver. Ability to release wire transfers from the online banking systems is restricted to OFT Certifying Officers. Once the wire transfer is released, a copy of the wire confirmation report from the bank is printed and attached to the journal entry request for filing.

A CMU analyst reconciles the wire transfer activity in the Custodial Account on a daily basis to ensure that executed wires have been settled and no unauthorized electronic fund transfer activity has occurred in the account.

Wire transfer requests are handled in the following manner depending on the source:

Office of Financial Operations and Systems (OFOS)

Wires originating from agencies require review and authorization by OFOS prior to disbursement. OFOS completes a review of the wire request and approves the journal entry request prior to forwarding the appropriate documentation to OFT. The Cash and

INTRODUCTION

Investments Manager (CIM) receives a pre-audited certified System of Accounting and Reporting (SOAR) Journal Entry Request created by the Accounting Manager of OFOS either through email, fax, or hand-delivered inter-office mail. The wire request along with supporting documentation is reviewed by Cash Management Analyst (CMA) and forwarded to the CIM, who confirms that the request ties back with the supporting documentation and contains proper authorization. The wire request is then forwarded back to the designated CMA, who then initiates the transaction in online banking services of the respective financial institution. The online banking systems require dual approval: the wire transfer is first approved and released by the CIM, followed by final approval by the Associate Treasurer for Asset Management.

Debt Management Unit (DMU)

Wire requests for debt service and related activities originate from the DMU, and are forwarded to the CIM or the Associate Treasurer for review, approval and release.

Payment Operations Center (POC)

Wire requests by District agencies are first sent to the POC. The POC receives the documentation containing the Electronic Funds Transfer (EFT) form along with a copy of the wire entry already recorded in SOAR. The CIM or Associate Treasurer reviews the wire request package to ensure that the documents have been completed accurately and agrees with the supporting documentation. The EFT transaction is then uploaded to the appropriate financial institution's online banking system for execution and approval.

Electronic Benefits Transfers (EBT)

Electronic benefits are managed by JP Morgan Chase, a contracted third-party administrator. JP Morgan receives a file of payments to make to eligible participants from the Department of Human Services (DHS) system once eligibility and authorization for payments have been established. JP Morgan Chase creates an ACH file from this file and forwards it to EBT. The Electronic Banking Project Analyst retrieves the electronic the ACH file and compares the control total and item count. If the amounts are correct, the file is transmitted back to JP Morgan Chase for settlement. The Analyst then sends a memorandum that includes supporting documentation to the Associate Treasurer requesting the transfer of funds to the appropriate bank account in the amount of the ACH file batch total.

INTRODUCTION

Inter-Agency Accounts funding

Wire transfers are also used to move funds from the Custodial Account to various District agency bank accounts (disability, unemployment etc.) in order to cover disbursements. Idle funds are also moved from the Custodial account to other accounts for overnight investment.

OBJECTIVES, SCOPE AND METHODOLOGY:

The primary objectives of this audit were to:

- Assess the effectiveness of internal controls, policies and procedures related to wire transfers;
- Determine whether wire transactions are accurate, properly authorized and adequately documented;
- Determine whether OFT has implemented recommendations made pursuant to OIO's prior report issued in October 2009 (Report No. IA:OFT:2904-C01).

To accomplish our objectives, we conducted interviews with the relevant officials at OFT and the CMU. We also reviewed relevant documentation which included bank statements, policies and procedures and other financial documents.

Due to the lack of a tracking database and the inability of OFT to provide the total number of wire transfers processed for FY 2010 and FY 2011, we were only able to select a limited sample to analyze. Also, because of this limitation, we could not project the results of our testing to the entire wire transfer population. Accordingly, we selected a sample of 34 wire transfer transactions processed during FY 2010 for testing to determine compliance with agency policies and procedures.

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.

Although we did not perform a formal reliability assessment of the computer processed data, we determined that the hard copy documents we reviewed were reasonable and generally agreed with the information contained in the computer-processed data.

FINDINGS AND RECOMMENDATIONS

FINDING 1:	DISBANDING OF THE SUNGARD TREASURY WORKSTATION SYSTEM FOR WIRE TRANSFER TRACKING
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SYNOPSIS:

Our audit disclosed that OFT does not have an in-house database of wire transfers processed by the Cash Management Unit (CMU). This was caused by the disbanding of the SunGard Treasury Workstation (TWS), which was previously used to track all wire transfers processed. The absence of an internal tracking system impeded the testing that OIO intended to perform during the audit. We were only able to select a limited sample to analyze due to the lack of a tracking database and could not project the results of our testing to the entire wire transfer population. Furthermore, the CMU staff could not provide OIO with an accurate dollar amount or number of the wire transactions processed in FY 2010. The lack of a database for wire transfer transactions has limited management oversight and increased the workload for the analysts.

DISCUSSION:

During our discussions with OFT officials, we were informed that the CMU stopped using the SunGard Treasury Workstation (TWS) to process wire transfers. Responsible officials also stated that the decision to disband TWS was made due to problems encountered with the Vendor. In addition, responsible officials stated that it would be too expensive for OFT to pay for maintenance costs and pay the Vendor to fix some of the "glitches" in the system.

We also found that OFT did not track wire transfers processed for part of FY 2010. This led to the CMU being unable to provide OIO with an accurate dollar amount and number of wire transfers processed during FY 2010. In FY 2011, the CMU started to track wire transfers using an Excel spreadsheet. Although the spreadsheet captures the wires transmitted on a daily basis, it does not allow the CMU staff to analyze the data. In addition, the CMU analysts rely on bank statements that are provided by the bank on a monthly basis to determine whether all wire transfers are accurately processed. Further, we found that the CMU analysts have to spend a great amount of their time researching wire transfer data since they do not have an internal database, resulting in inefficiency and potential risk in tracking wire transfers.

Although the CM analyst reviews online bank transactions on a daily basis to monitor wire activities, we noted that only the wire transfer activities in the District's Custodial Accounts (Wachovia/Bank of America) are reconciled daily and approved by either the

EXHIBIT B: AGENCY RESPONSE TO DRAFT REPORT

CIM or Associate Treasurer. Certain financial institutions do not provide a current day report to verify wire transactions.

In view of the fact that the only reliable wire transfer data came from the bank statements provided by the bank every month (Custodial Accounts at Bank of America/Wachovia) we selected a non-statistical sample from the FY 2010 transactions to review. Since the data from the bank statements had various types of transactions, we could not verify the total transactions processed during both FY 2010 and FY 2011. We, however, found that all the 34 wire transactions selected from the bank statements for FY 2010 had required approvals and supporting documentation.

RECOMMENDATION:

We recommend that the Interim Deputy Chief Financial Officer, OFT:

1. Develop a reliable in-house Tracking System or acquire a database system that can interface with the Financial Management System to track wire transfers and enable monitoring and data analysis by staff and management;

OFT's Response

OFT agreed with OIO's recommendation and stated that OFT is working with the Oracle team to see if the new system offered alternatives or additional programs to support the wire process.

OIO's Comment

The action taken by OFT is responsive to the recommendation and when fully implemented should address the deficiency.

EXHIBIT B: AGENCY RESPONSE TO DRAFT REPORT

FINDING 2: OPERATING PROCEDURES UPDATE

SYNOPSIS:

Our audit disclosed that although the CMU discontinued the use of SunGard and moved to a manual process for tracking and booking wire transfers, the procedures had not been updated to reflect this significant change. This has resulted in the lack of clarity in the processing of wire transfers and could lead to errors being made by the CMU staff.

DISCUSSION:

During our review of the Wire Transfer Procedures, we found that the procedures did not reflect the changes that had been made in the processing of wire transfers. During our discussions with the CMU staff they stated that this was an oversight and they would update the procedures.

RECOMMENDATION:

We recommend that the Interim Deputy Chief Financial Officer, OFT:

2. Review and update the wire transfer procedures to reflect the changes made in FY 2010 (disbanding SunGard and reverting to a manual process) and ensure that these changes are communicated to appropriate staff.

OFT's Response

OFT agreed with OIO's recommendation and stated that OFT has updated the cash management policy which has been forwarded to OIO. OFT has also instructed all staff to review all internal policies and update them by September 30, 2012.

OIO's Comment

The action taken by OFT is responsive to the recommendation and has addressed the deficiency.

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

Recommendations	Description of Benefits	Type of Benefit	Agency Reported Estimated Completion Date	Status¹
1	Ensures data accuracy and availability.	Internal Control	FY 2013	Open
2	Improves efficiency and consistent application of procedures.	Internal Control	9/30/12	Open

¹ 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.

EXHIBIT B: AGENCY RESPONSE TO DRAFT REPORT

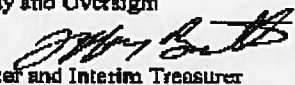
GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

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Office of Finance and Treasury

MEMORANDUM

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

FROM: Jeffrey Barnett 
Interim Deputy Chief Financial Officer and Interim Treasurer

DATE: August, 16, 2012

SUBJECT: Response to OIO Report – Wire Transfer Processing (OIO-12-01-04-OFT)

Please find the following responses in relation to the findings noted in the OIO report.

Finding 1: Disbanding of the SunGard Treasury Workstation System for Wire Transfer Tracking

We agree with the finding with the following clarification. SunGard was an inherited legacy system and the personnel trained on the software had made unnecessary adjustments to the system and those employees were terminated prior to the current management team. As a result, the system changes corrupted the functionality of SunGard, which led to a number of errors that occurred as a result of incorrect journal entry postings to the General Ledger and incorrect bank data feeds. These errors and problems made the system unstable and the cost to bring the system back to complete functionality was extensive. Based on those issues a decision was made to terminate the use of the software.

As a result of the termination of SunGard, Cash Management implemented an internal process to track transfers. The primary mission of the Cash Management unit is to ensure transfers are executed timely and accurately, which includes managing the proper approvals for the related transactions. The ultimate database for wire transfers is the bank account from where the transfer would be executed. The bank information is typically pulled from our existing banking partner however due to the recent transfer from Bank of America to Wells Fargo the request to get prior data from Bank of America to support the audit request was deemed to be too expensive. We have been able to properly validate payments however OIO was requesting additional information to support the review and that wasn't able to be provided. Currently we use the bank data, the recon process and excel

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EXHIBIT B: AGENCY RESPONSE TO DRAFT REPORT

documenting to support the wire process. We do agree that additional software would enhance our wire transfer process and we have been working to gauge what options exist in the market. The implementation and selection of additional software was delayed due to the expectation that Oracle EBS was going live on 10-1-2012. We delayed our project knowing that the demands of the ledger system would be too great to overlap. Also, we were working with the Oracle team to see if their new system offered alternatives or additional programs to support the wire process. We plan to re-engage in this project during FY13.

Finding 2: Operating Procedures Update

We agree with the finding. The cash management policy has been updated and the updated policy has been forwarded to OIO. Also, OFT has instructed all staff to review all internal policies and update them by 9-30-2012.

cc: Jeane Hoover, OFT
John Henry, OFT
Clarice Wood, OFT

Attachments