

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

**AUDIT OF DISHONORED CHECKS PROCESSING  
AT THE OFFICE OF FINANCE AND TREASURY  
AND THE OFFICE OF TAX AND REVENUE**

**OFFICE OF INTEGRITY AND OVERSIGHT**



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



**Office of Integrity and Oversight**

**MEMORANDUM**

**TO:** Jeffrey Barnette, Deputy Chief Financial Officer/Treasurer  
Office of Finance and Treasury

Stephen M. Cordi, Deputy Chief Financial Officer  
Office of Tax and Revenue

**FROM:** Mohamad K. Yusuff, Interim Executive Director  
Office of Integrity and Oversight

**Date:** September 30, 2013

**SUBJECT:** Final Report on the Audit of Dishonored Checks Processing at  
the Office of Finance and Treasury and the Office  
of Tax and Revenue (Report No. OIO-12-02-10-OFT)

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This report summarizes the results of our Audit of Dishonored Checks at the Office of Finance and Treasury and the Office of Tax and Revenue. This Audit was included in OIO's Audit and Integrity Plan for FY 2013. We subsequently expanded this audit to include the dishonored checks collection process at the Office of Tax and Revenue (OTR). The overall objectives of the audit were to assess the effectiveness of policies and procedures related to check verification and handling of dishonored checks at OFT and OTR; determine the adequacy of internal controls over check verification and collection process; and verify whether OFT has implemented recommendations made in OIO's prior report.

OIO provided 3 recommendations to address the findings cited in the report. OFT concurred with the recommendation and has already taken corrective actions as recommended. OTR also concurred with the recommendations and provided target completion dates. The corrective actions taken by OFT and the planned actions of OTR are responsive to the findings and meet the intent of the recommendations stated in the attached report.

*OIO No. 12-02-10-OFT*  
*Final Report*  
*September 30, 2013*  
*Page 2 of 2*

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have questions or need additional information, please contact me at (202) 442-6433, or your staff can contact Elizabeth Jowi, Senior Auditor, at (202) 442-8306.

Attachments

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**AUDIT OF DISHONORED CHECKS PROCESSING AT  
THE OFFICE OF FINANCE AND TREASURY  
AND THE OFFICE OF TAX AND REVENUE**

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**AUDIT OF DISHONORED CHECKS PROCESSING AT  
THE OFFICE OF FINANCE AND TREASURY  
AND THE OFFICE OF TAX AND REVENUE**

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**ACRONYMS**

CA	OTR's Compliance Administration
CCU	Central Collections Unit
ITS	Integrated Tax System
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RAA	OTR's Revenue Accounting Administration
RCM	Revenue Collections Manager
RO	Revenue Officer
SOAR	System of Accounting and Reporting
TE	Tax Examiner

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## EXECUTIVE SUMMARY

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### OVERVIEW

The Office of Integrity and Oversight (OIO) has completed an audit of Dishonored Checks Processing at the Office of Finance and Treasury (OFT) and the Office of Tax and Revenue (OTR). We conducted this audit, which was included in OIO's Audit and Integrity Plan for FY 2013, as part of OIO's oversight responsibility over OCFO agencies. This audit was originally planned for OFT, but we subsequently expanded the scope to include the collection process at the Office of Tax and Revenue (OTR).

The objectives of the audit were to:

- Verify whether OFT implemented recommendations made in OIO's 2007 prior audit report;
- Assess the effectiveness of policies and procedures related to check verification and handling of dishonored checks;
- Determine the adequacy of internal controls over check verification and collection process; and
- We also expanded our objectives to include assessing the effectiveness of internal controls over the dishonored checks collection process at OTR.

### CONCLUSIONS

Our audit revealed that OFT had taken corrective actions to remediate the findings pertaining to the timelines in processing dishonored checks cited in OIO's prior report issued in October, 2007<sup>1</sup>. However, we found that although additional procedures had been added to enhance the collection of dishonored checks, OFT had not updated their policies and procedures to reflect the changes implemented. Our audit work at the Office of Tax and Revenue (OTR) revealed that OTR did not make required reversing entries for dishonored electronic check payments in the Integrated Tax System (ITS) in a timely manner. In addition, we found that OTR did not comply with their policies for timely forwarding checks to its Collections Unit within the required 30 days.

### SUMMARY OF RECOMMENDATIONS AND MANAGEMENT ACTIONS

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

1. Updating the Dishonored Checks Policies and Procedures to incorporate the additional procedures added to the process;

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<sup>1</sup> Final Report on Review of OFT's Check Verification Process and Collection on Dishonored Checks (Report No. IA:OFT:2701-C03).

## EXECUTIVE SUMMARY

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2. Reinforcing the requirements of OTR's policies and procedures to ensure that RAA forwards dishonored checks within the required 30 day period; and
3. Reinforcing that the OTR Policies and Procedures for processing dishonored electronic check payments are followed by all staff.

A summary of the potential benefits resulting from this audit is shown as **Exhibit A**.

OIO received written responses from both OFT (September 23, 2013—**Appendix 1**) and OTR (September 18, 2013—**Appendix 2**). OFT concurred with the recommendation and provided OIO with updated policies and procedures, which indicated that the actions were already completed. We consider OFT's corrective actions responsive. OTR also concurred with the recommendations and provided target completion dates. We consider OTR's planned corrective actions responsive and meet the intent of our recommendations.

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## INTRODUCTION

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### BACKGROUND

The Office of Finance and Treasury (OFT) is charged with the collection of checks issued to all District agencies, with the exception of the Office of Tax and Revenue (OTR). OFT's Check Collection Unit is responsible for processing all dishonored checks from the following District Agencies: Department of Public Works (tickets), Department of Motor Vehicles (tags), Consumer & Regulatory Affairs, Public Library, D.C. Police, Vital Records, Notary Services, Human Services, Fire and Emergency Services and for the Office of the Recorder of Deeds.

#### Uncollectable Checks for FY 2011 and 2012

Although OFT attempts to collect from writers of dishonored checks, a substantial amount remains uncollected. The uncollectable checks are recorded as receivables in the System of Accounting and Reporting (SOAR). The receivables recorded by OFT at the end of FY 2011 and FY 2012 were \$12,284,971 and \$13,875,808 respectively.

#### New Legislation

As part of the Fiscal Year 2013 Budget Support Act of 2012, the Council passed the "Delinquent Debt Recovery Emergency Act of 2012," effective June 19, 2012. This Act authorized the Chief Financial Officer of the District of Columbia to create the Central Collection Unit (CCU) under the Office of Finance and Treasury (OFT). The Act requires that District agencies transfer and refer debts to the CCU within 60 days after a financial obligation owed by a person to the District becomes a delinquent debt. The CCU, which is scheduled to be operational in the first quarter of FY 2014, is expected to increase the debt collections delinquent in the District.

The Council also passed the "Delinquent Taxpayer Refund Offset Act of 2012." This Act authorizes the Office of Tax and Revenue (OTR) to offset taxpayers' delinquent debts from refunds owed by the District.

#### Check Verification at OFT

Check verification is performed by the cashiers at agencies with the iNovah Check System. OFT has a contract with Telecheck for check verification, but it does not guarantee the payment of checks. This means that Telecheck only verifies the check writers' accounts to confirm that there is no negative data in their database (bad checks, closed accounts, etc.). Since the implementation of the iNovah Check System in 2011, OFT has been able to upload the database of dishonored checks into the iNovah System where it can be flagged by the system when a dishonored check writer issues another check. This has helped to improve collection of dishonored checks.



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## INTRODUCTION

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### Dishonored Check Collection Process at OFT

OFT receives dishonored checks daily from various banks. These checks are written to the District of Columbia Treasurer for services provided by agencies but have been dishonored (returned) by the banks for various reasons including: insufficient funds in the payee's account; the account has been closed; or a stop payment was imposed on the check. All dishonored checks must be forwarded directly to OFT within a period of 4 business days from the financial institutions.

OFT's Dishonored Check Unit (DCU) receives dishonored checks, daily from the bank, except for OTR. The Revenue Collection Manager (RCM) is responsible for receiving, recording and safekeeping of these checks. The RCM also collects the face value of the check along with a \$65.00 returned check fee.

In FY 2011 and FY2012 OFT's collection activities have been limited. In accordance with OFT's Standard Operating Policies and Procedures, for the Dishonored Check Unit, the following is a summary of the dishonored checks collection process:

- The banks are required to send all checks made to the District of Columbia Treasurer to OFT within 4 days if they are unpaid. The checks are accompanied with a debit memorandum with details of the amount, item sequence, account number and reason for return;
- The checks are sorted and classified by agency and bank accounts;
- Information for the checks processed by OFT are entered into the database (Check Assist);
- OTR's dishonored checks sent to OFT are separated and forwarded to OTR for collection;
- The RCM is required to re-submit the checks electronically for payment of the check value plus a \$65 penalty. Three attempts are made to collect on dishonored checks after which they are returned to the agencies and a letter is generated informing the check writers that their checks were dishonored by the bank;
- Agencies are responsible for taking further collection actions once OFT returns the checks to them;
- The RCM is required to make journal entries in SOAR to record the receivables not collected; and
- On an annual basis, OFT calculates a reserve for uncollectable accounts that reduces the accounts receivable balance to reflect its net current value.

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## INTRODUCTION

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### Dishonored Checks Collection Process at OTR

#### RAA's Refund Control Unit

OTR's Revenue Accounting Administration (RAA) Refund Control Unit (RCU) is responsible for the following: (a) identifying checks that have been dishonored by the banks; (b) processing and posting the accounting reversing entries in SOAR; (c) making entries in the defective check database; (d) making accounting entries in ITS; and (e) forwarding dishonored check items to OTR's Collections Division.

#### Processing Paper Checks

- RAA receives returned paper checks from banks when the checks are dishonored for various reasons. In addition, dishonored non ITS checks that are written to the D.C. Treasurer for services provided by OTR (such as recording of deeds) are forwarded to RAA from OFT;
- The returned checks from the bank are forwarded in batches to RAA;
- The paper checks returned by the bank are logged into the Dishonored Check database;
- All returned checks information is entered into the System of Accounting and Reporting (SOAR);
- A reversal of the payment amount including a \$65 returned check fee is made in ITS;
- A schedule of returned paper checks from the Dishonored Check Database is sent to the Collections Division accompanied by copies of the returned checks for further collection action no later than 30 days after receipt by RAA.

#### Processing E-checks

- RAA is also required to reverse electronic checks (e-checks) if they are rejected by the bank;
- The electronic payments are reversed in the ITS system as soon as the bank confirms that the check is dishonored;
- When the reversal is made in ITS, a \$65 returned check fee is also charged to the taxpayer account;
- The reversed electronic checks data is stored in ITS.

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## INTRODUCTION

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### Collections Division

OTR's Collections Division (CD) is under OTR's Compliance Administration (CA). The CD receives checks from OTR's RCU accompanied by a spreadsheet entitled "Dishonored Check Detail of Items Sent." The report contains taxpayer information, bank information, revenue type, SOAR entry information and the date item(s) was forwarded to the CD. Following is the process used by the CD:

- The CD staff updates ITS to confirm receipt of the dishonored checks, photocopies and distributes copies of the checks to the designated Revenue Officer (RO) or Tax Examiner (TE) assigned to the Collection case.
- The Revenue Officer or Tax Examiner contacts the taxpayer and/or a field visit is made to the business.
- If no collection is made within a reasonable timeframe, the RO/TE prepares a lien, bank levy, or wage garnishment.
- The designated Clerical Assistant maintains a permanent spreadsheet for dishonored checks in addition to maintaining copies of the dishonored checks. The copies are store in-house for 4 years due to storage limitation. After 5 years, the copies are shredded.
- When collection is made on the dishonored check, the spreadsheets are updated and the case closed.
- The RO/TE files a copy of the dishonored check in the taxpayer's permanent case file.

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

The objectives of the audit were to:

- Assess the effectiveness of policies and procedures related to check verification and handling of dishonored checks at OFT and OTR;
- Determine the adequacy of internal controls over check verification and collection process;
- Verify whether OFT has implemented recommendations made in OIO's prior report issued October 2007.

This audit was originally planned for OFT, but we expanded our objectives to include assessing the effectiveness of internal controls over the collection process at the Office of Tax and Revenue.

In order to accomplish our objective, we interviewed officials responsible for dishonored checks collection at both OFT and OTR. We also reviewed pertinent documents related to dishonored check collection such as policies and procedures, general ledger entries and

## INTRODUCTION

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other financial documents. In addition, we requested downloads from the dishonored checks databases at both OFT and OTR. We selected two statistical samples of dishonored checks from each of the fiscal years (FY 2011 and FY 2012) to test for accuracy and to determine whether the collection process was functioning as required. The audit covered the period FY 2011 to FY 2012.

We relied on computer processed data from Check Chase and ITS for the dishonored checks processed by OFT and OTR during the period audited. We did not perform a reliability assessment of the computer processed data since a reliability test had previously been performed during the Comprehensive Annual Financial Report.

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 the findings and conclusions based on our audit objectives.

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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 1: POLICIES AND PROCEDURES AT OFT</b>
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### SYNOPSIS

We found that OFT's Policies and Procedures were outdated. The last update was dated September 30, 2011. We found that during FY 2011 and FY 2012, OFT continued to have a limited collection process for dishonored checks. However, we noted that although some improvements were made in the process, the policies and procedures did not include the additional steps added to the collection process. Best practices require that Policies and Procedures are updated as soon as changes or additions are made to the business process. We believe that outdated procedures can result in errors being made by new or current staff.

### DISCUSSION

We noted that, although OFT had made some improvements in the collection process following the six recommendations contained in OIO's Report issued in October 2007, the Policies and Procedures had not been updated. The corrective actions taken by OFT listed in OIO's prior report *Check Verification Process and Collection of Dishonored Checks* (Exhibit B) were in response to OIO recommendations, which centered on improving the timeliness of processing dishonored checks as well as upgrading the check verification contract. One of the improvements was the implementation of the iNovah System in May 2011. This allowed the Dishonored Check Unit staff to begin exporting the Check Chase Recovery Database (Check Assist) information to iNovah in March 2012. The exporting of the dishonored check data into iNovah System has allowed the Cashiering staff to stop writers of dishonored checks from issuing any additional checks until their accounts have been settled. In addition, we found that the iNovah System has shortened the processing time for dishonored checks.

OFT officials informed us that they were waiting for the CCU to be operational to update their procedures. The Central Collection Unit is not expected to be fully operational until the beginning of FY 2014.

### RECOMMENDATIONS:

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

1. Update the Dishonored Checks Policies and Procedures to incorporate the additional procedures added to the process.

## **FINDINGS AND RECOMMENDATIONS**

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### **MANAGEMENT RESPONSE AND OIO COMMENTS**

#### **Management Response (Recommendation 1)**

OFT stated that corrective action is completed on this recommendation and attached a copy of the updated policies and procedures for dishonored checks.

#### **OIO Comment**

OFT's corrective action is responsive and meets the intent of the recommendation.

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**FINDINGS AND RECOMMENDATIONS**

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**FINDING 2: DISHONORED PAPER CHECKS PROCESSING AT OTR**

**SYNOPSIS**

Our audit revealed in FY 2011 and FY 2012, that the Revenue Accounting Administration (RAA) forwarded dishonored checks to OTR's the Collections Division after the required 30 days. Specifically, we found that in FY 2011, 23 percent of the checks were forwarded past the 30-day requirement, and 32 percent in FY 2012. OTR/RAA staff did not follow the required procedures stipulated in their Defective Check Processing Procedures, which state that checks are to be forwarded to the Collections Division no later than 30 days after receipt. As a result, this condition can lead to delay in collections, or the inability to collect on dishonored checks.

**DISCUSSION**

We selected a statistical sample<sup>2</sup> of 64 out of a population of 2,547 dishonored checks processed in FY 2011. We found that 5 checks were sent to the Collections Division after more than 30 days. Additionally, we selected a statistical sample of 64 out of 2,365 checks returned by the banks in FY 2012 and found that 12 checks were sent to the Collections Division after the 30 days requirement. In view of high error rate in the samples, we expanded our analysis to cover all the returned checks processed in both FY 2011 and FY 2012. We used ACL, a computer assisted audit tool, to perform our analysis. The following table shows the number of checks forwarded to the Collections Division after the 30 day requirement for FY 2011 and FY 2012.

**Table 1 Checks Exceeding 30 days to be sent to Collection Division**

Fiscal Year	Dishonored Checks Total	Dollar Amounts	Checks exceeding 30 days	% of Total Checks
2011	2,547	\$ 14,684,261.00	595	23%
2012	2,365	\$ 15,236,147.00	768	32%
Total	4,912	\$ 29,920,408.00	1,363	28%

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<sup>2</sup> The statistical sample criteria were: Confidence level 95%, materiality level 10%, and auditor's expectation of error 3%.

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## FINDINGS AND RECOMMENDATIONS

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OTR officials stated that some of the delays were due to late receipt of the dishonored checks from the bank or other agencies. They stated that the date is recorded when the bank dishonors the checks but they have to wait to receive the returned checks to process them.

### **RECOMMENDATIONS:**

We recommend that the Deputy Chief Financial Officer, OTR:

2. Reinforce the requirements of OTR's policies and procedures to ensure that RAA forwards dishonored checks within the required 30 day period.

### **MANAGEMENT RESPONSE AND OIO COMMENTS**

#### **Management Response (Recommendation 2)**

OTR concurred with the recommendation and stated that management is taking steps to reassign resources and add monitoring controls to mitigate the risk. OTR provided a target completion date of October 31, 2013.

#### **OIO Comment**

OTR's planned corrective action is responsive and meets the intent of the recommendation.



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## FINDINGS AND RECOMMENDATIONS

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<b>FINDING 3:            DISHONORED ELECTRONIC CHECKS                               PROCESSING AT OTR</b>
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### SYNOPSIS

Our audit found that OTR did not reverse electronic check payments (e-checks) that were dishonored in a timely manner. The OTR Revenue Accounting Administration's (RAA) Defective Check Processing Procedures require that the electronic checks payments (e-checks) are reversed in the Integrated Tax System (ITS) as soon as the bank confirms that the e-check has been dishonored. During our audit, we found that the RAA and the Collections Division staff did not comply with this requirement in two cases. It is important that e-checks are reversed in ITS in a timely manner to ensure that a refund is not generated erroneously to a delinquent tax payer.

### DISCUSSION

We selected a statistical sample<sup>3</sup> of 64 e-checks out of a population of 941 e-checks that were dishonored in FY 2012. We found that OTR had not reversed 2 out of the 64 e-checks in ITS. Although the statistical sample results showed a low error rate, we believe that since there is risk of lost funds if e-checks are not reversed in a timely manner, action should be taken to address the cause of this deficiency. RAA's Defective Check Processing Procedures requires that e-checks are reversed in ITS as soon as the bank confirms that the e-check has been dishonored. When we brought the matter to RAA personnel's attention, they stated that following our request they had taken action to reverse the 2 dishonored e-checks in ITS. They also stated that delays in reversal sometime occur when the tax payer accounts are being handled by the Real Property Tax Division.

### RECOMMENDATIONS

We recommend that the Deputy Chief Financial Officer, OTR:

3. Reinforce that the Policies and Procedures for processing dishonored electronic check payments are adhered to by all OTR staff involved in the process.

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<sup>3</sup> The statistical sample criteria were: Confidence level 95%, materiality level 10%, and auditor's expectation of error 3%.

## FINDINGS AND RECOMMENDATIONS

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### MANAGEMENT RESPONSE AND OIO COMMENTS

#### Management Response (Recommendation 3)

OTR concurred with the recommendation and stated that management is addressing the issue by reassigning additional resources to the dishonored checks process. OTR provided a target completion date of October 31, 2013.

#### OIO Comment

OTR's planned corrective action is responsive and meets the intent of the recommendation

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

No.	Recommendations	Type of Benefit	Agency Reported Estimated Completion Date	Status <sup>4</sup>
1	Update the Dishonored Checks Policies and Procedures to incorporate the additional procedures added to the process	Internal Control	September 23, 2013	Closed
2	Reinforce the requirements of OTR's policies and procedures to ensure that RAA forwards dishonored checks within the required 30 day period.	Internal Control	October 31, 2013	Open
3	Reinforce that the Policies and Procedures for processing dishonored electronic check payments are adhered to by all OTR staff involved in the process	Internal Control	October 31, 2013	Open

<sup>4</sup> This column provides the status of a recommendation as of the report date. For final reports, "open" means management and the OIO are in agreement on the action to be taken, but is not complete. "Closed" means management has advised that action necessary to correct the deficiency is complete. If a completion date was not provided, the date of management's response is used. "Unresolved" means that management has neither agreed to take the recommended action nor proposed a satisfactory alternative action to correct the condition.

**EXHIBIT B: VERIFICATION OF OFT's CORRECTIVE ACTIONS ON 2007 PRIOR AUDIT:  
CHECK VERIFICATION PROCESS AND COLLECTION OF DISHONORED CHECKS  
(REPORT No. IA:OFT:2701-C03, OCTOBER 2007)**

No.	Recommendations	Type of Benefit	Completion Date	Status
1	<ul style="list-style-type: none"> <li>• Expedite the check verification process by assigning additional resources.</li> <li>• Perform a cost benefit analysis to determine the viability of upgrading to a verification system that can guarantee checks at the point (time) of payment;</li> <li>• Expand the Dishonored Check Unit to facilitate faster re-processing of returned checks and distribution to respective agencies</li> </ul>	Internal control	Funding not available	Closed
2	<ul style="list-style-type: none"> <li>• Take appropriate and effective steps to expedite the collection process by reducing the delay of returned checks to District agencies for collection;</li> <li>• Require Agencies to deposit checks or submit payments to the OFT cashiers as soon as they receive them as required by OCFO policies to ensure quick processing and collection of checks.</li> </ul>	Internal control	iNovah system fully implemented 5/2/2011	Closed
3	<ul style="list-style-type: none"> <li>• Updates its policies to include the tracking of all checks returned to agencies, and require active collection actions by the agencies;</li> <li>• Implement an active follow-up of dishonored checks to assure that the District is properly compensated for services rendered.</li> </ul>	Internal Control	CCU created by Council August 2012	Closed
4	Maintain a database of dishonored checks by Agency and conduct follow up to assure that additional services are not provided until all payments are made by customers.	Internal Control	3/2012	Closed
5	Performs a cost benefit analysis to determine the savings to the District of having a contract with Telecheck that assures payments.	Internal Control	Funding not available	Closed
6	Expand the use of Telecheck for all agencies that have cashiering functions to achieve a higher cash collection rate	Internal Control	Funding not available	Closed

**APPENDICES: OFT AND OTR RESPONSES TO FINDINGS AND RECOMMENDATIONS:  
“AUDIT OF DISHONORED CHECKS PROCESSING AT THE OFFICE OF FINANCE AND  
TREASURY (OFT) AND THE OFFICE OF TAX AND REVENUE (OTR)”  
(NO.: OIO 12-02-10 OFT)**

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**APPENDIX 1: OFT’S RESPONSE (SEPTEMBER 23, 2013)**

**APPENDIX 2: OTR’S RESPONSE (SEPTEMBER 18, 2013)**

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## APPENDIX 1: OFFICE OF FINANCE AND TREASURY'S RESPONSE

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



Office of Finance and Treasury

**MEMORANDUM**

**TO:** Mohamad K. Yusuff, Interim Executive Director,  
Office of Integrity and Oversight (OIO)

**FROM:** Clarice Wood, Associate Treasurer,  
Office of Finance and Treasury (OFT) *Clarice Wood*

**DATE:** September 23, 2013

**SUBJECT:** Office of Finance and Treasury's (OFT) Audit Response to the Draft Report  
for the Audit of Dishonored Check Processing at OFT – Report No. 12-02-10  
OFT

This memo is in response to the OIO Draft Report of Audit Findings and Recommendations for the follow-up to the dishonored check audit work performed in FY2012. The audit draft report is dated September 11, 2013. Below please find the OFT response.

**Recommendation 1: Update the dishonored check policies and procedures to incorporate the additional procedures added**

OFT's policies and procedures are outdated. The last update was September 30, 2011. It was noted that since the OIO audit report issued in 2007 containing six recommendations, OFT made improvements to its collection process. The current policy does not reflect the additional steps added to the collection process.

**OFT Response:**

Completed. Attached please find a copy of the updated OFT policies and procedures for dishonored checks.

cc: Jeffrey Barnette  
Donna McKenzie

## APPENDIX 2: OFFICE OF TAX AND REVENUE'S RESPONSE

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER  
OFFICE OF TAX AND REVENUE



Stephen M. Cordi  
Deputy Chief Financial Officer

### MEMORANDUM

TO: **Mohamad Yusuff, Interim Executive Director  
Office of Integrity and Oversight**

FROM: **Stephen M. Cordi, Deputy Chief Financial Officer  
Office of Tax and Revenue**

DATE: **September 18, 2013**

SUBJECT: **Response to Draft Report: Audit of Dishonored checks Processing at the Office  
of Finance and Treasury and the Office of Tax and Revenue (Report No. OIO-  
12-02-10-OFT)**

This memorandum is in response to the findings and recommendations of the above referenced report as they apply to the Office of Tax and Revenue.

#### **Finding No. 2 - Dishonored paper checks processing at OTR**

##### *Synopsis of Finding #2:*

OTR/RAA staff did not follow the required procedure stipulated in their defective check processing procedures, which state that checks are forwarded to the Collections Divisions (CD) no later than 30 days after receipt.

##### *Recommendation:*

Reinforce the requirements of OTR's policies and procedures to ensure that RAA forwards dishonored checks within the required 30 day period.

##### *Response:*

We concur with the finding that dishonored checks were not always forwarded to the Collections Division (CD) within the 30 day window. This task has historically been assigned to a single individual, but the workload far exceeds the capacity of that staff member. Management is taking steps to reassign resources and add monitoring controls to mitigate the risk, and expects to have completely implemented the change by October 31, 2013.

RAA would like to reiterate, as noted in the report, that we do not control when the dishonored checks and support evidence is received from the bank, as this can lead to

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## APPENDIX 2: OFFICE OF TAX AND REVENUE'S RESPONSE

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delays. RAA also faces a challenge when dishonored payments are suspended in ITS, delaying the reversal of the payment. RAA plans to mitigate this control risk by creating a separate log of dishonored payments that have not been fully posted in ITS, which will be forwarded to RPA for remediation. RAA will start the 30 day clock once the payment has been posted in ITS.

### **Finding No. 3- Dishonored Electronic Checks processing at OTR**

#### *Synopsis of Finding #3:*

“The RAA and the Collections Unit staff did not comply with [the] requirement [to reverse e-checks as soon as the bank notifies OTR] in two cases that we found during the audit. It is important that e-checks are reversed in ITS in a timely manner to ensure that a refund is not generated erroneously to the delinquent tax payer.”

#### *Recommendation:*

Reinforce that the Policies and Procedures for processing dishonored electronic check payments are adhered to by all OTR staff involved in the process.

#### *Response:*

We concur with the finding, and management is addressing the issue by reassigning additional resources to the dishonored check process and adding monitoring controls. The following steps will be taken to ensure the risk is mitigated:

- Reviewing the dishonored check process end-to-end to identify risks and controls;
- Reassigning dishonored check reversal tasks to individuals responsible for each deposit account;
- Segregation of the deposit account reconciliation and tracking database management tasks;
- Modifying the tracking database to include e-checks; and
- Establishing a monthly reconciliation of the database to SOAR (GL) and ITS.

These steps are expected to be fully implemented by October 31, 2013.

If you have any questions regarding the attached, please contact Beth Spooner at 442-6486.

cc: Jeffrey Barnette, Deputy CFO, Office of Finance and Treasury  
Clarice Wood, Associate Treasurer, Banking and Operations, OFT  
Glen Groff, Director of Operations, OTR