

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

**AUDIT OF INTERNAL CONTROLS OVER
THE RECEIPT OF TAXES AND FEES BY OTR'S
RETURNS PROCESSING ADMINISTRATION (RPA)**

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

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

FROM: Timothy Barry, Executive Director
Office of Integrity and Oversight

DATE: February 4, 2016

**SUBJECT: Final Report: Audit of Internal Controls over the Receipt of Taxes and Fees by
OTR's Returns Processing Administration (RPA) (OIO No. 15-01-14 OTR)**

The attached report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of Internal Controls over the Receipt of Taxes and Fees by OTR's Returns Processing Administration (RPA). The objectives of the audit were to determine whether: (1) the existing controls over the receipt of taxes and fees were adequate, effective, and in accordance with policies and procedures; and (2) taxes and fees were processed timely and posted accurately to taxpayer's accounts.

OIO identified 3 areas where internal controls could be improved and made three recommendations to strengthen internal controls in those areas. OTR concurred with the recommendations and developed a corrective action plan to address the recommendations. We consider OTR's planned and taken corrective actions to be responsive and meet the intent of the recommendations.

We appreciate the assistance and cooperation that you and your staff provided to OIO during this audit. Should you have questions, please contact me at (202) 442-6433.

Attachment

cc: Jeffrey DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy CFO and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Baraka Ondiek, Chief Improvement Officer, OCFO
Glen Groff, Director of Operations, OTR

**AUDIT OF INTERNAL CONTROLS OVER THE RECEIPT OF TAXES AND FEES BY
OTR’S RETURNS PROCESSING ADMINISTRATION (RPA)**

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**AUDIT OF INTERNAL CONTROLS OVER THE RECEIPT OF TAXES AND FEES BY
OTR'S RETURNS PROCESSING ADMINISTRATION (RPA)**

ACRONYMS

ACH	Automated Clearing House
DCFO	Deputy Chief Financial Officer
FTI	Federal Tax Information
IDCS	Integrated Data Capture System
ITS	Integrated Tax System
MITs	Modernized Integrated Tax System
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIO	Office of Integrity and Oversight
OTR	Office of Tax and Revenue
RPA	Returns Processing Administration
SOAR	System of Accounting and Reporting
TSG	Tax Systems Group

EXECUTIVE SUMMARY

OVERVIEW

The Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO) conducted an audit of the internal controls over cash receipts by the Office of Tax and Revenue (OTR), Returns Processing Administration (RPA). This audit was included in the OIO's Fiscal Year (FY) 2015 Audit and Integrity Plan. The objectives of our audit were to determine whether: (1) the existing controls over the receipt of taxes and fees were adequate, effective, and in accordance with policies and procedures; and (2) taxes and fees were processed timely and posted accurately to taxpayer's accounts.

CONCLUSION

In our testing of 238 statistically selected receipt transactions for application to taxpayer accounts, we found that the receipts were applied accurately. While internal controls over the application of payments are adequate, improvement is needed in the following areas:

- the RPA does not maintain information to measure compliance with the OCFO's policy for depositing receipts in a timely manner;
- unresolved suspended taxpayer payment transactions remained in the Integrated Tax System (ITS) over long periods of time; and
- the security procedures for the taxpayer drop box are inadequate.

SUMMARY OF RECOMMENDATIONS

We provided three recommendations to the Deputy Chief Financial Officer, OTR, to improve the internal controls over cash receipts by the OTR's, Returns Processing Administration. The recommendations focused on:

- Requiring RPA to review and modify the current payment process and coordinate with the other OTR Administrations that receive taxes and fees to ensure that the payments are sent to RPA in order for them to be deposited within the 48 hour requirement.
- Requiring that the RPA develop a targeted plan to resolve the suspended payments and analyze the electronic payment process to determine the reasons for the high volume of suspended electronic payments and how the process can be improved.
- Directing the RPA to develop procedures that address the handling of non-FTI data received through the drop box.

MANAGEMENT RESPONSE AND OIO COMMENTS

OIO received a written response to the draft report from the OTR on January 28, 2016. OTR management concurred with all three of the recommendations and implemented some of the

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corrective actions and plans to implement the remaining corrective actions to address the audit findings. We consider the planned and taken corrective actions to be responsive and meet the intent of the recommendations. A copy of OTR's complete response is included as an Appendix to this report.

INTRODUCTION

BACKGROUND

The Office of Tax and Revenue (OTR) Returns Processing Administration (RPA) is responsible for receiving taxes and fees from District taxpayers, processing tax returns and ensuring that all taxpayer accounts are properly credited. In FY 2014, OTR collected approximately \$5.7 billion in taxes and fees.

The District receives the payment of taxes and fees in-house, through the lockbox, and electronically. This audit specifically covered individual and business taxes and fees that were physically received in-house.

The following table represents the in-house payment transactions processed by RPA during FY 2014 and FY 2015 (as of June 30, 2015).

TABLE 1:
IN-HOUSE PAYMENT TRANSACTIONS
IN FY 2014 AND FY 2015 (as of June 30, 2015)

Fiscal Year	Number of Transactions	Amount
FY 2014	37,271	\$ 51,343,679.68
FY 2015	25,442	\$ 35,653,330.82
TOTAL	62,713	\$ 86,997,010.50

Source: OCIO/TSG data

In-house and electronic receipts are processed by the RPA. Following is a summarized description of the RPA units involved in the processing of in-house receipts:

Receipt and Control Unit

The primary function of this Unit is to provide mail pick-up, mail delivery and document storage services for the administration. The Unit is also responsible for the in-house mail delivery to all sections within the OTR.

Code and Edit Unit

The Unit is responsible for ensuring that tax returns received and processed and their related documents are complete and accurate; are coded and edited correctly for data entry; and batched according to tax type.

Payment and Exception Perfection Unit

The Unit is part of the Code and Edit Unit and its function is to ensure that all payments received are processed and posted correctly. All transactions that have one or more missing data elements are sent to a Tax Examiner for verification and correction. The Unit researches all problem

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payments that are missing some or all required information. Where information cannot be verified, the payment is deposited into the Exception Account for additional follow up.

Remittance Processing Unit

The Remittance Processing Unit is responsible for scanning returns, checks, coupons and correspondence that accompany checks, processing them through the Integrated Data Capture System (IDCS) and depositing checks to the correct bank account. The Remittance Processing Unit is also responsible for making some manual deposits received for or by other administrations within the OTR and preparing journal entries for all the deposits processed in the Unit.

Suspense Unit

This Unit's responsibility is to correct returns that suspend from normal processing within ITS due to line errors or missing information. The Unit also researches ITS to obtain missing information and input that information on the return. Also, when suspense occurs due to Line Item Errors, the Unit ensures each return has the correct liability based on the information provided by the taxpayer on the return.

Accounting and Reconciliation Unit

This Unit monitors, reconciles bank payments, verifies and inputs into SOAR the tax revenue financial information; and reconciles original deposits to the information entered in ITS from the file uploads received from the various vendors where the District has contracted payments and settlement services. The Unit is also involved in the resolution of suspended batches and payments.

Processing of In-house Receipts

RPA's Receipt and Control Unit collects envelopes containing tax returns and tax payments from designated post office boxes. In addition, mail is picked up daily from a drop box that is located in the OTR Customer Service Center. The mail is sorted by tax type (individual or business) and separated based on whether or not they contain payment.

The returns that contain payments are date stamped, batched, totaled (with the calculator tape attached), and forwarded to the Code and Edit Unit for examination. The Tax Examiners in the Code and Edit Unit ensure that the payments contain sufficient information for processing and that the accompanying returns are accurate and also contain all necessary information and documentation. After this review, the batches are forwarded to the Document Preparation Unit for scanning preparation, where they are further sorted by tax type, tax year.

If the Tax Examiners in Code and Edit determine that there is missing documentation or information, the return/payment is considered "unclean." The Examiners are required to contact

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taxpayers or conduct research in ITS to get the missing information. If information cannot be verified by RPA, the payment is deposited into the Exception Account pending additional follow-up. Examiners prepare a daily report of the volume processed by money and type of returns received. The payments that contain all required information are forwarded to the Remittance Unit for further review and for scanning in the Integrated Data Capture System (IDCS). The payments are then remotely deposited in the Wells Fargo Bank account. A confirmation from the bank is received for all deposited checks. OCFO policy requires all payments be deposited within 48 hours of receipt.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine whether: (1) the existing controls over the receipt of taxes and fees were adequate, effective, and in accordance with policies and procedures; and (2) taxes and fees were processed timely and posted accurately to taxpayer's accounts.

In order to achieve these objectives, we conducted a walkthrough of the RPA units to observe process flow and evaluate physical security and reviewed the RPA Policies and Procedures. Additionally, we used ACL Data Analytics software to select two statistical samples of 119 payment transactions for FY 2014 and 2015 (as of June 30, 2015), for a total of 238 transactions (from a population of 62,713 in-house transactions) and analyzed the database of all transactions processed during the period covered by the audit. The audit covered the period from October 1, 2013, to June 30, 2015. We limited our audit to the payment transactions that were processed in-house.

For the 238 selected transactions, we also examined whether the payments were accurately applied to the taxpayer accounts. Additionally, we analyzed unprocessed payments that were suspended in ITS.

We relied on computer-processed data from the ITS. We did not perform a formal reliability assessment of the computer-processed data since independent auditors conducted a review of ITS during the District's Comprehensive Annual Financial Report Audit for FY 2014.

This performance audit was conducted 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

FINDING 1: DEPOSIT OF RECEIPTS

SYNOPSIS

We found that the RPA does not maintain information to measure compliance with the District's 48-hour deposit requirement for depositing receipts. We also found payments that appeared to take 10 days or more after receipt to be deposited in the bank. The delays in deposits were attributed to the need for other OTR administrations to research how to apply the payment prior to deposit. The delay in depositing receipts results in the late posting of the payment to the taxpayer's account and deprives the District of interest revenue that could have been earned and used for government programs.

DISCUSSION

The OCFO Policies and Procedures on Cash (and related instruments) Paragraph 10301001.30 requires that all payments should be deposited within 48 hours of receipt. In addition, when OIO conducted the walkthrough of RPA as well as during discussions with RPA officials, we were informed that payments are required to be deposited in the bank within 48 hours. The payments are remotely deposited in the Wells Fargo Bank account.

The Office of the Chief Information Officer's (OCIO) Tax Systems Group (TSG) provided OIO with all transactions processed in-house during FY 2014 and FY 2015 (as of June 30, 2015). We selected two statistical samples¹ of 119 transactions for each of the fiscal years, for a total of 238 transactions (out of 62,713 transactions for the audit period). OIO attempted to calculate the time lapse between the receipt date of the checks/money orders and date of deposit in the bank; however we were notified by RPA officials that the receive date indicated in ITS is not the actual date the check was received and that RPA does not maintain a record of when a check is actually received. Although RPA acknowledged there could be delays in depositing receipts, OIO could not measure OTR's compliance with the OCFO 48 hour deposit requirement.

In our review of deposit times, there were checks that appeared to take greater than 10 days to deposit. For these items, we had an RPA official review and provide an explanation for the time

¹ The statistical sample criteria for both samples were: Confidence level 95%, materiality level 10%, and auditor's expectation of error 5%.

FINDINGS AND RECOMMENDATIONS

lapse. RPA officials reviewed the payments in question and provided the following explanations for delays:

- Copies of payments are sent to other administrations within OTR, such as the Collections Division, for research before transmitting the payment to the bank for deposit.
- Payments are received directly by other administrations within OTR before being sent to RPA for deposit.
- Payments had to be split into several accounts, multiple years, or were part of a payment plan and needed to be key-punched for processing.
- No explanation could be provided for some of the delays.

The current payment processing environment does not allow RPA to adhere to the OCFO 48 hour deposit requirement. We discussed the above results with RPA officials who stated that most of the payments that are processed In-house are “unclean” or exception payments that require research and they do not have control over the timeliness of other OTR Administrations and have to wait until the payments are forwarded to RPA. They also stated that even when there is a delay in depositing payments, RPA is required to give taxpayers credit for the check date.

RECOMMENDATION:

We recommend the Deputy Chief Financial Officer, OTR:

1. Require RPA to review and modify the current payment process and coordinate with the other OTR Administrations that receive taxes and fees to ensure that the payments are sent to RPA in order for them to be deposited within the 48 hour requirement.

MANAGEMENT RESPONSE AND OIO COMMENTS:

OTR management concurred with the recommendation and will modify the procedures to include a data stamp on the back of the check to assess processing time, meet with other Administrations to assess the payment process and amend RPA written policies regarding exception processing for checks that cannot be processed within the 48 hour turnaround time.

OIO Comment:

We consider the planned corrective actions to be responsive and meet the intent of the recommendations; however, we suggest that OTR consult with the Office of Finance and Treasury prior to amending the policies for depositing exception checks.

FINDINGS AND RECOMMENDATIONS

FINDING 2: SUSPENDED PAYMENT TRANSACTIONS

SYNOPSIS

As of September 30, 2015, there were a total of 11,318 suspended payments in the Integrated Tax System (ITS), valued at approximately \$49.7 million. Some of these suspended payments date back over 10 years. In FY 2014, there were 1,185 suspended payments valued at approximately \$3.5 million dollars, and in FY 2015, there were 2,551 suspended payments valued at \$26.7 million. RPA was unable to process these payments due to errors in the returns or other technical reasons. The delay in resolving the suspended payments results in the misstatement of taxpayer's account balances.

DISCUSSION

During our audit, we found that some transactions were suspended in ITS. When a payment is suspended, the money is deposited in the bank; however, it is not posted to the taxpayer's account. The suspended payments are carried forward until the issue is resolved. These suspended payments are mostly payments made online.

OCIO's Tax System Group (TSG) provided OIO with a database of all payments that are suspended in ITS as of September 30, 2015.² The database included 11,318 suspended payment transactions.

Table 2, on the following page, provides the reasons why transactions were suspended, the number of transactions for each reason type, and the dollar value of the 11,318 transactions.

² Although our audit scope was as of 30 June, 2015, the suspended payments status could only be provided as at the date of our request which was September 30, 2015.

FINDINGS AND RECOMMENDATIONS

Table 2:
Suspended Payments – Reasons for Suspension

Reason for Suspension	Number of Transactions	Amount
Auto Payment Application Failed	41	\$20,578.29
Input Payment Notice Number Invalid	167	\$792,558.55
Invalid Filing Date Frequency Period Date	57	\$105,570.48
Keypunch Error	29	\$273,533.39
No Check Deposit Record For Payment	2	\$0.00
No Prefer/Bill/Case Record Found	578	\$2,517,699.79
Period Overlap	640	\$6,845,386.13
Reverse Payment	158	\$409,801.98
Transfer Suspended	9	\$4,896.13
Transfer Suspende	57	\$554,743.78
Unidentified Payment	9,580	\$38,159,277.83
Totals	11,318	\$49,684,046.35

Source: OCIO/TSG

Further analysis of the suspended payments revealed that the majority of the suspended payment transactions were made electronically. Table 3 below represents the breakdown of the suspended payments by the origin of the payment.

Table 3:
Suspended Payments – Location of Payment

Suspended Payment Origin	Number of Transactions	Amount
In House	32	\$ 29,278.91
Lockbox	83	\$ 544,182.50
Other (electronic)	11,203	\$ 49,110,584.94
Total	11,318	\$ 49,684,046.35

We also found that a high percentage of the suspended payment transactions did not include the amount of the transaction or were left blank. Table 4 breaks down the suspended payments by whether the payments transactions had any dollar amounts (dollar transactions) or whether the amounts were blank (zero dollar transactions).

FINDINGS AND RECOMMENDATIONS

Table 4:
Suspended Payments – Dollar and Zero Dollar Transactions

Type	Number of Transactions	Percent of Total
Dollar Transactions	4,340	38%
Zero Dollar Transactions	6,978	62%
Total	11,318	100%

The RPA officials stated that the main reasons for payment suspension are technical errors and missing information, such as:

- Automated Clearing House (ACH): Taxpayers entered SSN information instead of the 13 digits ACH Account numbers
- Lockbox: Payments electronic information that did not get to run (wrong format).
- Checks: posted to the wrong agencies bank accounts.
- Taxpayers used the wrong forms with payments and posted to the wrong account (different tax type or tax year)

These payments are left suspended in the Integrated Tax System (ITS) while research is done by the RPA Suspense Unit, which is responsible for resolving suspended payments. We were informed that although the RPA Suspense Unit has been working to resolve the number of suspended payments, it is time consuming and sometimes impossible to resolve. RPA officials also informed us that due to the technical nature of most of the suspended payments, RPA is working with the TSG on how the suspended payments will be addressed.

OTR recently migrated individual income tax and fiduciary tax to the Modernized Integrated Tax System (MITS) and is working on the business tax conversion to MITS. It is imperative that the suspended payments are addressed to ensure that taxpayer account balances are properly stated. RPA officials stated that there is a special team in RPA working on data conversion.

RECOMMENDATION:

We recommend the Deputy Chief Financial Officer, OTR:

2. Require that the RPA develop a targeted plan to resolve the suspended payments and analyze the electronic payment process to determine the reasons for the high volume of suspended electronic payments and how the process can be improved.

MANAGEMENT RESPONSE AND OIO COMMENTS:

OTR management concurred with the recommendation and plans to assign a staff member to be responsible for the research of all suspended payments and increase the number of employees assigned to research. OTR will also meet with the MITS vendor to request a feature that will prevent zero dollar transaction and evaluate impact of purging zero dollar transactions. In

FINDINGS AND RECOMMENDATIONS

addition, OTR will develop a reporting system for senior management to monitor the suspense process no later than July 30, 2016. Finally, OTR will develop procedures to address the treatment of suspended payments that cannot be identified.

OIO Comment:

We consider the planned corrective actions to be responsive and meet the intent of the recommendation.

FINDINGS AND RECOMMENDATIONS

FINDING 3: DROP BOX SECURITY PROCEDURES

SYNOPSIS

We observed that the RPA did not have adequate security procedures when handling the pick-up of taxpayer documents from the drop box located in the Customer Service Center. We also observed that the key to the drop box was placed in a location where all employees had access to it. This lapse in security occurred because RPA does not have procedures for handling non-Federal Tax Information (FTI) data that are received through the drop box. The lack of adequate security procedures when handling documents from the drop box can result in the loss or exposure of taxpayer information.

DISCUSSION

OIO conducted a walkthrough at the RPA to observe the work flow and follow the processes used by the RPA units when receiving and processing taxes and fees. We observed that when collecting documents from the drop box that is located at the OTR Customer Service Center, the RPA employee emptied the drop box without ensuring that the documents were safeguarded. The documents were then carried up to the mail room on an open tray.

We also observed that the key to the drop box is kept in an open container located on a desk in the area where all employees in that section have access. We brought this matter to the attention of RPA officials who stated that they will secure the keys and upgrade the security around the emptying of the drop box.

RECOMMENDATION:

We recommend the Deputy Chief Financial Officer, OTR:

3. Direct the RPA to develop procedures that address the handling of non-FTI data received through the drop box.

MANAGEMENT RESPONSE AND OIO COMMENTS:

OTR management concurred with the recommendation and has implemented security procedures that address the audit finding.

OIO Comment:

We consider the corrective actions taken to be responsive and meet the intent of the recommendation.

EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Number	Recommendation	Type of Benefit	Agency Reported Completion Date	Status³
1	RPA review and modify the current payment process and coordinate with the other OTR Administrations that receive taxes and fees to ensure that the payments are sent to RPA in order for them to be deposited within the 48 hour requirement.	Internal Control	February 29, 2016	Open
2	RPA develop a targeted plan to resolve the suspended payments and analyze the electronic payment process to determine the reasons for the high volume of suspended electronic payments and how the process can be improved.	Internal Control	July 30, 2016	Open
3	RPA develop procedures that address the handling of non-FTI data received through the drop box	Internal Control	January 28, 2016	Closed

³ This column provides the status of the recommendation as of the report date. For final reports “Open” means management and OIO are in agreement on the action to be taken, but the action is not complete. “Closed” means that management advised OIO that they took the action needed to correct the condition and that action is complete. If a completion date was not provided the date of management’s response was used. “Unresolved” means that management has neither agreed to the recommended action nor proposed a satisfactory alternative action to address the condition.

APPENDIX 1: AGENCY RESPONSE TO DRAFT REPORT

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



Stephen M. Cordi
Deputy Chief Financial Officer

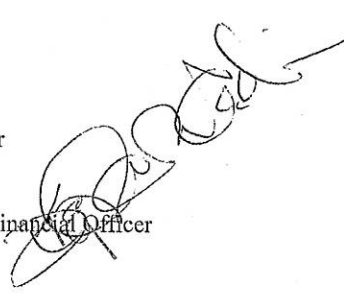
MEMORANDUM

TO: Timothy Barry, Executive Director
Office of Integrity and Oversight

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

DATE: January 28, 2016

SUBJECT: DRAFT REPORT: Audit of Internal Controls over the Receipt of Taxes and Fees by
OTR's Returns Processing Administration (RPA). **Report Number: OIO No. 15-01-14
OTR)**



This is in response to the audit report named above addressed to the Office of Tax and Revenue to provide written comments to the recommendations noted in the report. We are providing the following responses below.

Finding 1: Deposit of Receipts

The Office of Tax and Revenue agrees with the recommendation. RPA will:

- Modify the procedures to ensure that all payments (checks) processed in house are date stamped on the back of the check upon receipt by RPA. The documents will be imaged and available in ITS and MITS for review when assessing process time in the future.
- Meet with the other Administrations to assess the current payment process and identify the causes for the delay in submitting payment processing vouchers to RPA. The current process will be revised based on the outcome of this assessment. A draft of the revised process will be completed and available for comments by February 29, 2016.
- Amend RPA written policies to recognize that "Exception Processing (un-clean)" checks require additional processing and cannot be processed within the current 48 hour turnaround. Request approval of OTR management on the modified handling for all **Exception Processing payments** based on the results of the payment process assessment.

APPENDIX 1: AGENCY RESPONSE TO DRAFT REPORT

Audit of Internal Controls Over the Receipt of Taxes and Fees by OTR's, RPA
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Finding 2: Suspended Payment Transactions

The Office of Tax and Revenue agrees with the recommendation. RPA will:

- Assign one person whose responsibility it is to maintain the research on all suspended payments; this staff member will retain a log of all suspended payments that have not been settled to include the result of the research that was conducted for each payment.
- Increase the number of employees assigned to research the suspended payment inventory as the inventory increases.
- Meet with the MITS vendor to request a feature is programmed in the system that will prevent zero dollar transactions from creating a suspended file.
- Evaluate the impact of purging the zero dollar transactions considering that the MITS system is replacing the current ITS system with the next 3 years.
- Develop a reporting system to be reviewed by senior management to monitor the suspense process. The reporting system will be implemented by no later than July 30, 2016.
- Develop procedures to address the treatment of suspended payments that cannot be identified.

Finding 3: Drop Box Security Procedures

The Office of Tax and Revenue agrees with the recommendation. RPA has implemented the following security procedures:

- When retrieving the contents of the drop box, the employee will remove and seal the inner bag with all contents inside. The bag will remain sealed until it is delivered to RPA's Receipt & Control Unit for further processing.
- The key to access the drop box located in the Customer Service Center is now stored in the RPA Receipt & Control Unit Manager's office. This key can only be accessed by the Receipt & Control Unit Manager or the Branch Chief.