



Office of Integrity & Oversight

**Government of the District
of Columbia, Office of the
Chief Financial Officer**

September 13, 2017

**AUDIT OF THE OFFICE
OF FINANCE AND
TREASURY'S
CENTRAL
COLLECTIONS UNIT
OPERATIONS**



Highlights

Highlights of Report 17-01-07 OFT, a report to the OFT Deputy Chief Financial Officer/Treasurer.

Why OIO Did This Audit

The Office of Integrity and Oversight performed this audit of the Office of Finance and Treasury's Central Collections Unit as part of OIO's oversight responsibilities. This audit was also included in the OIO FY 2017 Audit Plan.

What OIO Recommends

We provided the Deputy Chief Financial Officer/Treasurer, OFT, with four recommendations that centered on strengthening internal controls and improving effectiveness. The recommendations included:

- Requiring the CCU to make necessary preparations to identify staffing needs and new location so they can move forward quickly when the contract matter is resolved.
- Continuing to work with District agencies to identify all debt sources that should be collected by the CCU in preparation for the new system and agree on a format for debt transmission through a Memorandum of Understanding with each agency.
- Directing the CCU to address the staffing shortage and establish a process for follow-up and reporting of defaulted accounts as required by the legislation.
- Directing the CCU to update their procedures to include a section on document retention and to communicate the procedures to the relevant CCU personnel.

September 13, 2017

AUDIT OF THE OFFICE OF FINANCE AND TREASURY'S CENTRAL COLLECTIONS UNIT OPERATIONS

What Did OIO Find

The Central Collections Unit (CCU) is not operating at full capacity. We found that although the legislation that established the CCU required that it should commence full operation on October 1, 2013, this has not been achieved. Additionally, the CCU does not have a system to process settlements and installment agreements, and is only currently concentrating on collecting the Department of Motor Vehicles' (DMV's) delinquent debts, using the Department of Motor Vehicle (DMV) systems (eTIMS) and DESTINY. Finally, the CCU needs more space to operate at the walk-in center and additional staff to fully accomplish its mission.

Internal control improvements are needed

During the testing of the sample of 60 DMV delinquent debt settlements, we found 15 out of the 60 settlements processed in FY 2015 and 9 out of the 60 processed in FY 2016 that did not have copies of payment receipts. Also, the sample of 60 installment agreements processed in FY 2015 and FY 2016 that we tested showed a default rate of 77%. In addition, the CCU is currently unable to pursue customers with defaulted accounts to recover the funds or report the defaults to the relevant agencies due to staffing shortage.

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



Office of Integrity and Oversight

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

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

DATE: September 13, 2017

SUBJECT: Audit of the Office of Finance and Treasury's Central Collections Unit Operations
(17-01-07 OFT)

This report summarizes the results of the Office of the Chief Financial Officer (OCFO)'s Office of Integrity and Oversight (OIO)'s Audit of the Office of Finance and Treasury's Central Collections Unit Operations. The objectives of the audit were to (1) assess the effectiveness of internal controls over the collection process; and (2) determine whether the CCU is operating in accordance with applicable laws and regulations.

OIO provided 4 recommendations to the Deputy Chief Financial Officer/Treasurer, OFT for necessary action to correct the described deficiencies. We received a written response to the draft report on August 29, 2017 concurring with all four recommendations. OFT also stated that they have taken corrective action on one of the recommendations and plan to take corrective actions to address the remaining audit findings. The action already taken and planned is responsive and meets the intent of the recommendation. A copy of OFT's response, in its entirety, is included as an Appendix to this report.

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.

cc: Jeffrey DeWitt, Chief Financial Officer, Government of the District of Columbia
Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff, OCFO
Marshelle Richardson, Chief Risk Officer, OCFO
Clarice Wood, Associate Treasurer, OFT

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Abbreviations and Acronyms

CCU	Central Collections Unit
DC	District of Columbia
DCFO	Deputy Chief Financial Officer
DMV	Department of Motor Vehicles
eTIMS	Electronic Ticket Information Management System
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OFT	Office of Finance and Treasury
OIO	Office of Integrity and Oversight
SOAR	System of Accounting and Reporting
UDC	University of the District of Columbia
UMC	United Medical Center

Background

The Central Collections Unit (CCU) was established by D.C. Code §1-350.01 to I-350.10 "Delinquent Debt Recovery Act" passed by the Council of the District of Columbia in 2012. The legislation requires that the CCU collects non-tax debts owed to the District. The CCU is responsible for the collection of all delinquent debt for claims, permits, licenses and fees due to the District, with the exception of taxes, child support, and certain other debts.

Due to the lack of a debt collection system, the CCU currently only collects delinquent debts for the Department of Motor Vehicles (DMV) at the walk-in center and call center, located at 1101 4th Street. The CCU also collects fees levied on dishonored District checks for the Office of Finance and Treasury (OFT). In addition to the walk-in center, the CCU also uses the services of contracted Collections Agents for debt collection. The Collection Agents were contracted prior to the creation of the CCU by the DMV, the United Medical Center (UMC) and the University of the District of Columbia (UDC). The Collections Agents collect the debts on behalf of the CCU based on the stipulations of their contracts and submit the funds directly to the CCU bank account. The payments are recorded as receivables in the OCFO's System of Accounting and Reporting (SOAR) system.

The CCU provides settlement and installment agreement services to qualifying walk-in customers and those that call the customer service number. Payments by customers can only be made at the walk-in center or online. The debts collected by the CCU at the walk-in center are mainly for unpaid parking DMV tickets, consisting of parking, moving violations, photo-enforcement tickets, related DPW fees for towing and storage, and DMV insurance lapse violations. The CCU staff uses the DMV eTIMS system to verify the amount owed to ensure that what is owed is correct. Customers are provided with a printout and informed about how the debt can be settled. The CCU offers customers installment payment plans or debt settlement based on existing policies and procedures.

Settlements

The CCU prefers that customers agree to a settlement. The CCU Collections Representatives are allowed to settle debts at 75% of the amount owed or the best negotiated amount. This varies based on the circumstances and is determined on a case by case basis. All settlements have to be approved by the CCU

Collections Supervisor or the CCU Manager.

Installment Agreements

An initial Installment Agreement requires a down payment of 25% of the amount owed, and the remaining balance must be paid in equal monthly installment payments, until paid in full.

Supervisory approval is not required if in accordance with the following dollar thresholds, and maximum number of months to pay below:

- Under \$350.00 is not eligible for an installment agreement
- \$350.00 - \$5,000.00 (up to 12 months)
- Over \$5,000.00 (up to 18 months)

Objectives, Scope, and Methodology

The objectives of the audit were to: (1) assess the effectiveness of internal controls over the collection process; and (2) determine whether the CCU is operating in accordance with applicable laws and regulations. The audit covered the period October 1, 2014 to September 30, 2016.

In order to achieve our objectives, we met with and interviewed responsible personnel from the CCU and OFT. We performed a walkthrough of CCU processes and observed CCU staff interacting with customers. We selected a random sample of 60 settlement agreements out of a total of 1,051 DMV settlement agreements processed at the walk-in center in FY 2015 and 60 out of a total of 2,299 settlement agreements processed in FY 2016 to review for compliance with required policies and procedures. We also randomly selected 60 DMV installment agreements processed in FY 2015 and FY 2016 and checked in the DMV eTIMS system to verify that the agreements had been fulfilled. In addition, we randomly selected 60 journal vouchers out of 342 recorded in SOAR for receivables that are submitted to the CCU by the contracted Collections Agents in FY 2016 to check for proper supporting documentation and approvals. Finally, we reviewed pertinent documentation that included laws, policies and procedures.

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.

Finding 1: The CCU is not Operating at Full Capacity

Currently, the Central Collections Unit (CCU) is not operating at full capacity, although the legislation that established the CCU, D.C. Code Title 1, Subchapter XVII, §1-350.01 to I-350.10 "Delinquent Debt Recovery" was passed by the Council of the District of Columbia in 2012 and states that full operation begins on October 1, 2013. The main reasons for the operational limitations are a lack of a debt collection system, inadequate space to operate and staffing shortages. As a result of these limitations, the District is not collecting or actively pursuing all of the debts covered by the Delinquent Debt Recover Act.

The CCU currently collects debt for the Department of Motor Vehicles (DMV) using DMV systems (eTIMS) to process settlements and installment agreements; and DMV DESTINY system to collect outstanding insurance lapse violations. During our review of CCU processes and discussion with CCU staff, we noted that the reliance on DMV systems has resulted in customer complaints because they have to deal with both DMV and CCU staff. Additionally, the CCU is unable to collect debt for all agencies, as required by the legislation, due to the lack of a system to process and store the data. This has resulted in agencies not being able to provide the debt information so that the CCU can pursue collection actions. We were informed by the OFT officials that they have attempted to acquire a computer system for managing collections for the CCU, but the award process has been prolonged due to protests lodged by some Vendors during the contract award process.

Additionally, during our walkthrough at the walk-in center, where DMV customers make payment on delinquent accounts before receiving DMV services, we observed that the space provided for the CCU was not adequate, resulting in customer complaints about the long waits. We also noted that the CCU did not have adequate staff to meet all the requirements stipulated by the legislation. In particular, because of the staffing shortage the CCU was unable to follow-up on defaulted accounts or provide the default information to DMV so the permits or licenses can be cancelled. We were informed by the CCU officials that they plan to address all their operational limitations, including the hiring of additional staff.

At the time of our audit we were notified by the Office of Contracts that the new contract was approved by the Council and awarded to the winning bidder on July 3, 2017, but the Vendor that lost the bid lodged a protest. A Notification to Cease Performance was issued by the Office of Contracts and the matter is pending until the Contracts Appeals Board makes a determination on the case.

Recommendations

We recommend the Deputy Chief Financial Officer/Treasurer OFT:

1. Require the CCU to make necessary preparations to identify staffing needs and new location so they can move forward quickly when the contract matter is resolved.

Management Response (Recommendation 1):

OFT agreed with the recommendation and stated that staffing projections for FY 2018 have been submitted by the CCU Manager for approval. OFT also stated that Logistics is aware of the CCU's space needs and when the new contract is awarded in 2018 final determinations will be made.

OIO Comment:

The planned corrective actions are responsive and meet the intent of the recommendation.

2. Continue to work with District agencies to identify all debt sources that should be collected by CCU in preparation for the new system and agree on a format for debt transmission through a Memorandum of Understanding with each agency.

Management Response (Recommendation 2):

OFT agreed with the recommendation and stated that the CCU already has certain District agency debt on the General Ledger but is unable to transfer the debt contractual limitations. OFT also stated that they plan to hire and train a Financial Analyst who will start working with various agencies in FY 2018.

OIO Comment:

The planned corrective actions are responsive and meet the intent of the recommendation.

Finding 2: Internal Controls over Installment Agreements Need Improvement

Our testing of 60 DMV installment agreements processed in FY 2015 and FY 2016 showed that 46 out of 60 installment agreements defaulted. Based on the sample tested, this is a default rate of 77%. The lack of follow-up on defaulted accounts has resulted in lost revenue to the District and non-compliance with the law.

During our audit, the CCU provided OIO with monthly reports of installment agreements that were processed during the period FY 2015 and FY 2016, totaling 6,771 installment agreements. We used ACL to select a statistical¹ sample of 60 installment agreements from the list of 6,771. We reviewed the supporting documentation from the DMV eTIMS system to determine the payment status of the installment agreements selected. The following table shows the result of our testing of the 60 statistically selected installment agreements processed in FY 2015 and FY 2016.

FY 2015 and FY 2016 Sample Test Results

Status	Number	Total Amount
Defaults	46	\$ 32,402.00
Fulfilled	14	\$ 23,225.00
Total	60	\$ 55,627.00

Source: OIO

Section: §1-350.07 (c) of the Delinquent Debt and Recovery Act requires that the CCU provide agencies that issue licenses or permits names of persons with delinquent accounts that are subject to suspension of a District license or permit, within 10 days of the end of the preceding month and Section §1-350.05 of the legislation authorizes the CCU to impose a lien for unpaid accounts; however, these actions are not taken. We were informed by the CCU staff that they are not pursuing customers with defaulted accounts due to staff shortages. The CCU staff informed us that they attempted to follow-up on defaulted accounts in the past, but due to a staffing shortage they could not keep up. As a result, services are being provided to citizens that have not fulfilled their obligations to the District.

Recommendation We recommend the Deputy Chief Financial Officer/Treasurer OFT:

3. Direct the CCU to address the staffing shortage and establish a process for follow-up and reporting of defaulted accounts as required by the legislation.

¹ The statistical sample criteria: Confidence level 95%, materiality level 5%, and auditor's expectation of error 0.

Management Response (Recommendation 3):

OFT agreed with the recommendation and stated that currently when a payment plan defaults they return the tickets to an outstanding status. Additionally, when the FY 2018 staffing projections are approved the CCU will hire additional collections representatives to manually monitor installment payment compliance.

OIO Comment:

The planned corrective actions are responsive and meet the intent of the recommendation.

Finding 3: Internal Controls over Documentation Retention Need Improvement

OIO found that supporting documentation was not always available to support transactions related to settlement agreements and journal entries. This was due in part to lack of a retention policy and understanding of the OCFO requirements related to the retention of supporting documentation. As a result, we could not verify the date that transactions occurred.

Settlement Agreements

To verify settlement agreements were granted in accordance with regulations, we were provided with an electronic file of settlements completed in FY 2015, a total of 1,051 and FY 2016, a total of 2,299. We selected a statistical² sample of 60 transactions from each fiscal year. We reviewed the supporting documentation for the selected samples to ensure all required documentation was maintained including the settlement agreement and payment receipt, verified the accuracy and evidence of supervisory approval. We found 15 settlements that were missing payment receipts in the FY 2015 sample and 9 in the 2016 sample.

In lieu of a payment receipt, the CCU staff provided us with eTIMS system printouts for agreements missing a receipt, showing that payments were made; however, the eTIMS reports showed that they payments were made and applied to the delinquent balances but we could not verify that the payment was made for the full settlement amount on the settlement date. The main issue was that OCFO Policies require that a copy of the payment receipts are filed as part of the settlement package.

Journal Entries

Additionally, we selected a statistical sample of 60 journal entries from the list of the 342 journal entries that were recorded in SOAR for receivables received by the CCU in FY 2016. We reviewed the journal voucher and supporting documentation for the selected sample to verify that they were properly approved by the Accounting Manager. The CCU staff could not locate one of the 60 vouchers selected for testing. Of the 59 vouchers tested, we did not find any exceptions.

During discussions with the CCU officials, we were informed that the CCU did not have a retention policy to ensure that they retained all required supporting documentation. They were also not aware of the OCFO Financial Policies and Procedure on Collections No. 10300000.70 that requires that documentation in support of transactions is properly maintained. We were also

² The statistical sample criteria: Confidence level 95%, materiality level 5%, and auditor's expectation of error 0.

informed that the CCU currently files their documents in boxes and filing cabinets but hope to begin scanning them into the eTIMS system going forward. Following our discussion, the CCU drafted interim retention procedures and communicated it to all staff to ensure that all required supporting documentation is maintained.

Recommendation

We recommend the Deputy Chief Financial Officer/Treasurer OFT:

4. Direct the CCU to update their procedures to include a section on document retention and communicate the procedures to the relevant CCU personnel.

Management Response (Recommendation 4):

OFT agreed with the recommendation and stated that the CCU updated its policies and procedures in August 2017.

OIO Comment:

The corrective action taken is responsive and meets the intent of the recommendation. OFT has been provided OIO with a copy of the updated policies.

EXHIBIT A: Summary of Recommendations and Benefits

No.	Recommendation	Type of Benefit	Agency Reported Estimated Completion Date	Status ³
1	Require the CCU to make necessary preparations to identify staffing needs and new location so they can move forward quickly when the contract matter is resolved.	Improve Effectiveness	FY 2018	Open
2	Continue to work with District agencies to identify all debt sources that should be collected by the CCU in preparation for the new system and agree on a format for debt transmission through a Memorandum of Understanding with each agency.	Improve Effectiveness	FY 2018	Open
3	Direct the CCU to address the staffing shortage and establish a process for follow-up and reporting of defaulted accounts as required by the legislation.	Internal Control	FY 2018	Open
4	Direct the CCU to update their procedures to include a section on document retention and communicate the procedures to the relevant CCU personnel.	Internal Control	August 2017	Closed

³ This column provides the status of the 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 the action is not complete. “Closed” means that management advised that the action taken needed to correct the condition 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 take the recommended action nor proposed satisfactory alternative actions to correct the condition.

APPENDIX: Office of Finance and Treasury Response


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



Office of Finance and Treasury

MEMORANDUM

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

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

DATE: August 29, 2017

SUBJECT: Office of Finance and Treasury's (OFT) Audit Response to Draft Report
For – Report No. 17-01-07 OFT

This memo is in response to the OIO Draft Report of Audit Findings and Recommendations for the OCFO Central Collection Unit, dated August 17, 2017. Below please find the OFT response.

Finding 1: The CCU is not Operating at Full Capacity

Recommendation 1: We recommend the Deputy CFO and Treasurer require the CCU to make necessary preparations to identify staffing needs and new location so they can move forward quickly when the contract matter is resolved.

OFT Response:

I concur with the recommendation. The Associate Treasurer, Operations and Banking, along with the CCU Manager and OFT Senior Financial Manager have ongoing communication regarding CCU staffing needs. The CCU Manager submitted FY2018 staffing projections for approval. Included in the staffing projections were the following: Financial Analyst needed to assist the CCU Accountant in accounting entries and bank reconciliations; a second Lead Collections Representative to be assigned to the Blue Plains Impoundment Lot. The purpose is to have a physical presence in order to enforce the Immobilization Act of 2013. The CCU would place the Lead and one or two Collections Representatives at Blue Plains. CCU has also requested a Management Analyst or Quality Assurance Analyst to assist the CCU Manager, CCU Collections Supervisor and CCU Program Analyst. This position will certainly bring added value through the system implementation process and once the CCU is fully functional. Staffing projections also request the services of an OGC Attorney to assist with the initiation of civil suits and other enforced collection activity; and finally, a total of up to fourteen Collections Representatives. The staffing projections submitted were based on system implementation and additional agency participation. Over the past several months, the CCU has transitioned three contractual Collections Representatives to permanent status, and hired two additional full-time Collections Representatives. Currently, the CCU has one Lead Collections Representative and seven Collections Representatives reporting to the Collections Supervisor.

Insofar as a new location for the CCU, once the contract is awarded and implemented which is projected to occur in 2018. CCU will evaluate its space needs at that time for expansion. Logistics is aware of the CCU future needs. CCU does not want to incur expense until the needs are definite.

Recommendation 2: Continue to work with District agencies to identify all debt sources that should be collected by CCU in preparation for the new system and agree on a format for debt transmission through a Memorandum of Understanding with each agency.

OFT Response: I concur with the recommendation. The CCU currently has certain District agency debt parked on the General Ledger (GL). This includes DCRA, MPD and PS&J. CCU is contractually unable to place this debt with existing Outside Collection Agencies (OCA) because it significantly changed the scope of the contract work. Therefore, the delinquent debt remains parked on the GL. Once the CCU has a Financial Analyst hired and fully trained, the intention is for the Program Analyst and contractual Business Analyst to start setting up meetings in 2018 with various District agencies, based on OFT and CCU established priorities. The purpose of these meetings will be to determine correct points of contact at the agency level; determine any system interfacing required; existing recordkeeping and the type of record documentation currently maintained by each agency; creation of each unique Memorandum of Understandings, and other required actions that are necessary. The OFT and CCU may also require assistance of OFOS to ensure agency compliance with D.C. Code § 1-350.01 to 1-350.10. The OFT/CCU has held various discussions regarding the timing of this aggressive approach to working with the District agencies. Our primary concern is the inability to accurately account for and aggressively collect on the delinquent debts without an automated system or an OCA.

Finding 2: Internal Controls over Installment Agreements Need Improvement

Recommendation 3: We recommend the Deputy Chief Financial Officer/Treasurer direct the CCU to address the staffing shortage and establish a process for follow-up and reporting of defaulted accounts as required by the legislation.

OFT Response: I concur with the recommendation. At this time, when a payment plan defaults, the remaining tickets return to an outstanding status. They will be included on the next file to the collection contractor to resume collection efforts through letters and calls.

CCU FY2018 staffing projections have been submitted for approval. CCU has begun the hiring process for additional collection representatives which will be completed by December 2017. With the increased number of Collections Representatives, the CCU will be able to manually monitor installment payment plan (IPP) compliance. The CCU, through the use of Excel spreadsheets will list IPP's by Collections Representative and have each Collections Representative send out broken promise letters and/or make telephone calls as reminders. This is very labor intensive as the CCU has tried this in the past without much success. The CCU has revised existing policies so that initial IPP's are only applicable to valid District residents. Second chance IPP's are by exception only and are subject to Collections Supervisor or CCU Manager's approval. The CCU will also consider manually monitored payroll deduction agreements, and OPRS attachments for delinquent debts owed by District employees. Once the CCU has its system, staff will have the capability to generate "broken promise" letters in order to remind customers of his/her payment obligations. Additionally, the customers will have additional options for making payments. Finally, the CCU is working with the DMV contractor for eTIMS in an attempt to manipulate IPP payment dates. Many customers are on a fixed income and receive assistance from the government. Providing for payments between the 1st and 5th of the month may assist in reducing the default rate.

Finding 3: Internal Controls over Documentation Retention Need Improvement

Recommendation 4: We recommend the Deputy Chief Financial Officer/Treasurer direct the CCU to update their procedures to include a section on document retention and communicate the procedures to the relevant CCU personnel.

OFT Response: I concur with the recommendation. The CCU has updated its policies and procedures as of August 2017 to address this finding, and will hold a meeting with CCU personnel to ensure compliance.

cc: Jeffrey Barnette
Clarice Wood
Marc Aronin