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**Review of the District's
Cash Advance Fund**

May 28, 2008

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EXECUTIVE SUMMARY

PURPOSE

Pursuant to Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L.No. 93-198,¹ the District of Columbia Auditor (Auditor) examined the District's cash advance imprest fund (cash advance fund) and its management and administration by the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT).

CONCLUSION

The Auditor found that internal controls over the District's cash advance operations were extremely lax, and in some areas, nonexistent. The Auditor's examination found OFT's cashiering operations violated the following internal control policies established by the OCFO: (1) cash/checks were not promptly deposited; (2) duties were not segregated; (3) cash was not properly safeguarded and recorded; (4) access to cash was not limited to essential employees only; (5) cash advance receipt slips were not pre-numbered thereby providing no way to effectively account for all cash advances and repayments (records poorly maintained); (6) vault combination was not changed as personnel changed; (7) personal checks were cashed from the cash advance fund; and (8) written procedures for cash operations were not maintained at cashiering sites.

The Auditor also found that OFT was holding approximately \$26,000 in cash advance over-repayments owed to some District employees of which \$5,000 has been owed since calendar year 2005. The Auditor's examination found that the \$26,000 in excess cash was maintained in small envelopes in an unlocked plastic container which was kept in the vault at the cashiering site. The practice of maintaining excess cash in this manner for long periods placed these funds at risk of being lost, stolen, misused or misplaced.

The Auditor further found serious security deficiencies at two OFT cashiering sites including broken doors and a broken door lock; windows to cashiers' areas that were not bullet proof; cash advance funds that were maintained in unlocked boxes; and cashiers who entered the vault area from the main corridor thereby providing an opportunity for an unauthorized individual(s) to force entry into the vault.

¹See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. See also D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, finding, and all other papers, things, or property to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

The Auditor's review further found widespread non-compliance with the Chief Financial Officer's Financial Management and Control Order No. 98-25, dated December 29, 1998, which was further clarified in a January 7, 1999 memorandum. Control Order 98-25 governed the cash advance operation. In particular, the Auditor found that: (1) the District's Treasurer failed to issue a formal delegation of authority to the Operations Manager or designees to approve cash advances; (2) 2,376 advances, totaling approximately \$2,580,184, violated the \$250 cash advance limit; (3) cash advances were approved and issued for lost and stolen paychecks in violation of the Control Order; (4) cash advance repayments were not always automatically deducted from employees' next scheduled paycheck, as required; (5) the Operations Manager approved two cash advances, totaling \$1,100 for a head cashier; and (6) cash advances were issued for missing or late payroll documentation.

The Auditor also found that, during October 2007, the Cashiering Manager obtained \$2,000 from the cash advance fund and replaced the cash with an IOU personal check. Further, the Auditor found that a head cashier also cashed \$500 in personal checks from cash maintained for making change, thus providing the cashier with unauthorized interest-free loans that remained unpaid as of February 25, 2008, for approximately 11 and 10 months, respectively. The Auditor also found that \$1,000 was missing from \$5,000 in cash authorized to be maintained in the vault at one of the cashiering sites for the purpose of making change. The Auditor noted that the head cashier at this location was the same cashier who cashed two (2) personal checks totaling \$500 and who received the \$1,100 cash advance.

Overall, the internal control failures and deficiencies identified by the Auditor substantially increased the potential for fraudulent schemes and improper activities to occur and remain undetected for a long period of time.

MAJOR FINDINGS

1. Internal controls over the operation of the cash advance fund were fundamentally inadequate.
 - a. The Operations Manager failed to maintain adequate records to support the cash advance operations.
 - b. There was a lack of segregation of duties.
 - c. OFT held approximately \$26,000 in cash owed to District employees.
 - d. Serious security deficiencies existed at cashiering sites.

2. Cash advances reviewed by the Auditor did not comply with the CFO's order.
 - a. The District's Treasurer failed to issue a formal delegation of authority to the Operations Manager and other designees.
 - b. The Operations Manager established unauthorized practices which were designed to make cash advances more "employee friendly."
 - c. Payroll related cash advances were approved for more than \$250.
 - d. Cash advances were approved and issued for lost and stolen paychecks which violated Control Order No. 98-25.
 - e. Cash advance installment repayments violated Control Order No. 98-25.
 - f. Cash advances were approved and issued for missing or late payroll documentation which violated Control Order No. 98-25.
 - g. Definition of the term "unusual circumstance" was not provided.
 - h. Employee acted without official authority.
3. The Operations Manager approved cash advances that did not adhere to stated procedures.
4. The District's Cashiering Manager used an "IOU personal check" to obtain \$2,000 from the cash advance fund.
 - a. The Head Cashier and other cashiers also cashed personal checks from the cash advance fund or from cash maintained for the purpose of making change.
 - b. The Operations Manager approved two cash advances, which violated Control Order No. 98-25, totaling \$1,100 for Head Cashier.
5. \$1,000 was missing from a vault at an OFT cashiering site.

MAJOR RECOMMENDATIONS

1. The Associate Treasurer, Operations and Banking, immediately discontinue allowing the Operations Manager or designees to handle multiple phases of the cash advance process and establish a sound and effective system of separation of duties.
2. The Associate Treasurer, Operations and Banking, must immediately ensure that the cash advance and cashiering operation comply with all applicable OCFO orders and internal control policies.

3. The Associate Treasurer, Operations and Banking, immediately devise a plan to return to current and former District government employees the approximately \$26,000 in cash which is owed in over-payments. To the extent OFT is unable to return the cash to its rightful owner, these amounts must be properly categorized as a liability, recorded in the District's SOAR, and reported correctly and promptly to the Office of Unclaimed Property.
4. The Associate Treasurer, Operations and Banking, take immediate steps to correct all physical security deficiencies noted by the Auditor at cashiering sites managed by OFT.
5. The District's Treasurer and Associate Treasurer, Operations and Banking, hold OFT staff who approved cash advances which violated Control Order No. 98-25 accountable to the fullest extent permitted by applicable personnel rules up to and including termination.
6. The Associate Treasurer, Operations and Banking, ensure that all OFT staff strictly adhere to Control Order No. 98-25.
7. The District's Treasurer, in conjunction with Office of Pay and Retirement Services, should strongly encourage District employees to choose direct deposit of their paychecks. District employees choosing not to participate in the direct deposit program should be informed of the risk associated with paper paychecks and that the District will not issue cash advances for lost or stolen payroll checks.
8. OFT's Associate Treasurer, Operations and Banking:
 - a. ensure that the Cashiering Manager's personal check for \$2,000, dated October 15, 2007, is cashed immediately and the cash placed in the cash advance fund;
 - b. immediately communicate both verbally and in writing to all OFT cashiers the OCFO's policy on cashing personal checks and strictly enforce this policy;
 - c. take steps to obtain immediate reimbursement from the Head Cashier for the two personal checks cashed totaling \$500;

- d. institute procedures to ensure that all checks received for repayment of cash advances are cashed daily; and
 - e. ensure that regular unannounced cash counts are conducted at all OFT cashiering sites, by entities independent of Operations and Banking, throughout the fiscal year but no less than twice annually.
9. The District's Office of the Inspector General conduct an investigation to determine the status of the \$1,000 that was missing from the cash maintained in the vault at an OFT cashiering site.
10. OFT's Associate Treasurer, Operations and Banking, ensure that Head Cashiers make daily deposits of all cash in excess of the amount maintained for making change. If necessary deposits should be made twice a day.

PURPOSE

Pursuant to Section 455 of the District of Columbia Home Rule Act, as amended, Pub.L.No. 93-198,² the District of Columbia Auditor (Auditor) examined the District's cash advance imprest fund (cash advance fund) and its management and administration by the Office of the Chief Financial Officer's (OCFO) Office of Finance and Treasury (OFT).

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the examination were to determine whether:

- (1) internal controls over the cash advance fund and operations were adequate to safeguard assets against loss and unauthorized use and to produce reliable financial information; and
- (2) adequate procedures existed and were followed in the issuance and repayment of cash advances.

The scope of the examination covered the period October 1, 2004 through January 15, 2008. In conducting this examination, the Auditor reviewed the District's policy on cash advances and examined documentation related to the issuance and repayment of cash advances. The Auditor also reviewed the District of Columbia Office of the Chief Financial Officer's District-Wide Policies and Procedures Manual³ and applicable sections of Title 1 of the District of Columbia Municipal Regulations (DCMR).⁴ Additionally, the Auditor interviewed OFT staff, and District personnel in the Office of Pay and Retirement Services (OPRS), Office of Financial Operations and Systems

²See section 455 (b) of the District of Columbia Home Rule Act, approved December 24, 1973 (Pub. L. No. 93-198; 87 Stat. 803); D.C. Code § 1-204.55 (b) (2001) which states: "The District of Columbia Auditor shall each year conduct a thorough audit of the accounts and operations of the government of the District in accordance with such principles and procedures and under such rules and regulations as he [she] may prescribe. *See also* D.C. Code § 1-204.55 (c) which states: "The District of Columbia Auditor shall have access to all books, accounts, records, finding, and all other papers, things, or property to or in use by any department, agency, or other instrumentality of the District government and necessary to facilitate the audit."

³See District of Columbia Office of Chief Financial Officer, Office of Financial Operations and Systems, Policies and Procedures Manual, Volume 1 District-Wide, Effective Date 8/31/1998, Last Updated: Fiscal Year 2004.

⁴See 1 DCMR § 1502 (June 2001).

(OFOS), and the Department of Human Services' Human Support Services Cluster. Further, the Auditor conducted an unannounced cash count and inspection of the OFT managed and controlled cash advance fund as well as cash maintained at two cashiering sites.⁵

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.

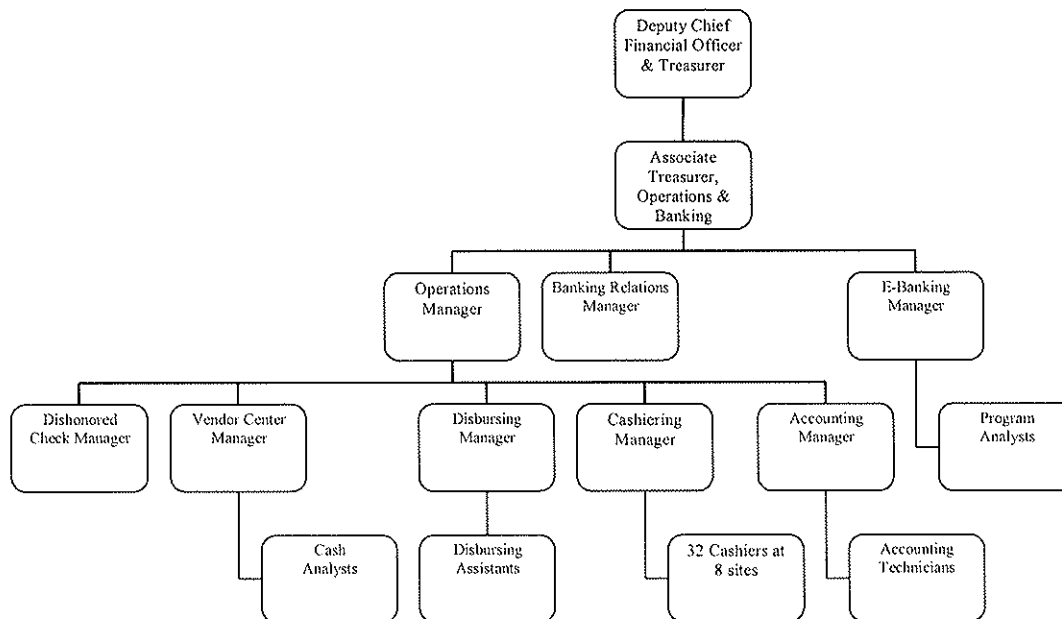
BACKGROUND

Financial Administrative Issuance, Financial Management and Control Order No. 98-25 (Control Order No. 98-25), issued by the District's then interim Chief Financial Officer on December 29, 1998, established the "policy for cash advances, lost paychecks and stolen paychecks..." (see Appendix I) The policy was further clarified in a January 7, 1999 memorandum from the District's then-Deputy CFO and Treasurer (Treasurer) which was sent to all agency Chief Financial Officers. (See Appendix II)

OFT is responsible for managing the operation of the District's cash advance fund. OFT's Operations Manager is responsible for supervising the day-to-day functions of the cash advance operation. In a document dated January 24, 2007, the District's Treasurer indicated that cash advances could be approved by: (1) the Operations Manager; (2) Chief of Management Operations; (3) one of the three (3) Associate Treasurers; or (4) the District's Treasurer. Prior to the January 24, 2007 document, Control Order No. 98-25 reflected that cash advances could only be made by the District's Treasurer, at his/her discretion. OFT's organizational structure and the specific entities under review are presented in Diagram 1 below:

⁵On the day the Auditor conducted an unannounced cash count, all cashiers who reported for work at one location arrived late. The hours of operation for the cashiering site were 8:15 a.m. to 4:30 p.m., Monday through Friday. The first cashier arrived at 8:15 a.m. The other cashiers arrived at 8:35 a.m. and 8:52 a.m. respectively. As a result, the cashiering site was not able to open for business at its scheduled time of 8:15 a.m. The Head Cashier for that location failed to report for work on that day and according to the District's Cashiering Manager (the Head Cashier's immediate supervisor) the Head Cashier had not previously requested leave for that day.

Diagram 1
OFT's Organization Chart for Operations and Banking



Source: OFT

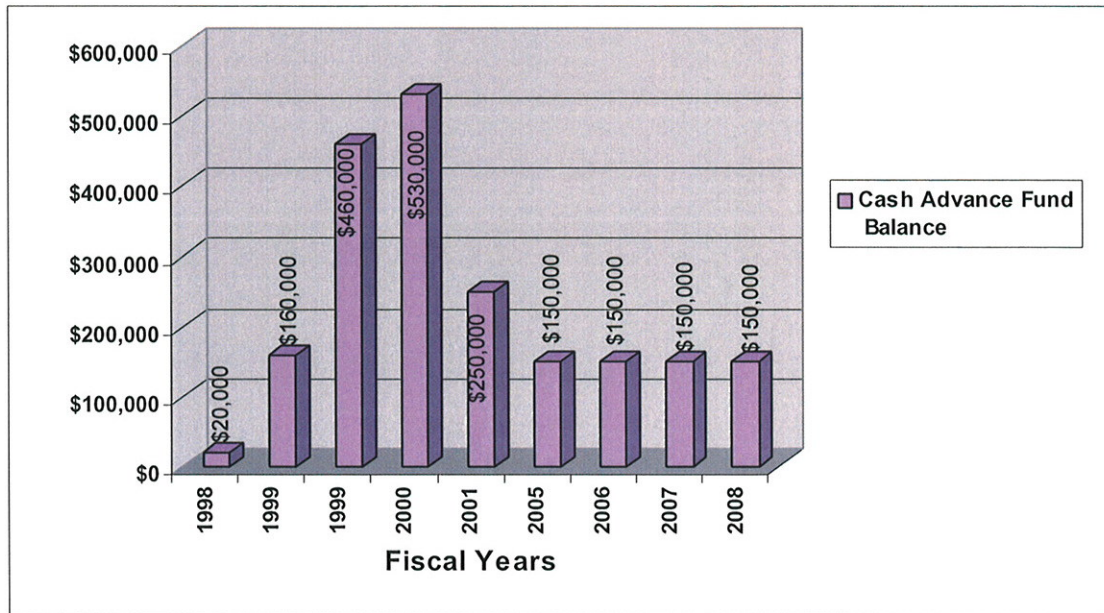
Cash Advance Fund

The cash advance fund is a revolving fund that is replenished when cash advances are repaid. According to documents obtained from OFOS, when the interim CFO issued Control Order No. 98-25 in 1998, \$20,000 was the maximum amount of cash authorized to be held in the cash advance fund.⁶ The Auditor's review revealed that,⁷ the cash advance fund was increased based on approval from the District's former CFO and former Associate Controller for Financial Operations to its highest level of \$530,000 in FY 2001 and subsequently reduced to \$150,000, which was its level at the time of this review. Graph 1 presents the historical changes in the cash advance fund from FY 1998 to present.

⁶The cash advance fund was originally established April 11, 1977 in the amount of \$5,000 by the U.S. Department of Treasury. The cash advance fund was subsequently increased to \$15,000 in December 1980 and to \$20,000 in March 1987.

⁷Since the establishment of the cash advance fund, requests for increases have been made by various District officials including the following: (1) Chief of Treasury Operations; (2) Acting Treasurer; (3) Deputy CFO and Treasurer; and Acting Deputy CFO and Treasurer. Increases were authorized on December 18, 1980 and March 30, 1987, by the D.C. Controller, Associate Director Financial Operations, Associate Controller Financial Operations, and the District's CFO.

Graph 1
Historical Changes in the District's Cash Advance Fund Balance*



Source: OFOS and OFT

* The FYs prior to FY 2005 were not included in the Auditor's scope.

As of February 25, 2008, the cash advance fund totaled \$150,000 and was divided among three cashiers at the main cashiering site. One cashier was responsible for a \$75,000 cash box, another for a \$50,000 cash box, and the third a \$25,000 cash box.

Cash Advances Issued

According to documentation provided by OFT, approximately 2,431 cash advances totaling \$2,589,115 were issued between October 1, 2004 and January 15, 2008. The cash advances ranged from \$85 to over \$4,000. Table I presents the total number and total amount of cash advances by fiscal year for the audit period.

Table I
Number and Amount of Cash Advances
FYs 2005 - 2008 as of January 15, 2008

Fiscal Year	Cash Advances Approved	Amount
2005	817	\$764,833.89
2006	790	\$882,062.15
2007	800	\$908,572.01
2008	24	\$33,646.84
Total	2,431	\$2,589,114.89

Source: OFT

FINDINGS

INTERNAL CONTROLS OVER THE OPERATION OF THE CASH ADVANCE FUND WERE FUNDAMENTALLY INADEQUATE

Chapter V, Section 1010.300 of the OCFO's Policies and Procedures Manual states: "There is a relatively high risk associated with transactions involving cash; thus, a strong system of internal control is required." Chapter V, Section 1010.101 (D) defines Internal Control as:

"A plan of organization under which employee duties are so arranged and records and procedures so designed as to make it possible to exercise effective accounting control over assets, liabilities, revenues and expenditures. Under such a system, the work of employees is subdivided so that no single employee performs a complete cycle of a transaction. Moreover, under such a system, the procedures to be followed are documented and require proper authorization by designated officials for all actions taken."

According to Government Internal Control Standards, issued by the Comptroller General of the United States:⁸

*"Internal control is a major part of managing an organization...Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources."*⁹ [Emphasis Added]

The Auditor found that internal controls over the District's cash advance operations were extremely lax and, in some areas, nonexistent. OFT's cashiering operation violated the following specific internal control policies set forth in the OCFO's Policy and Procedures Manual:

- Cash/Checks were not promptly deposited;
- Duties were not segregated;

⁸See United States General Accounting Office, Standards for Internal Control in the Federal Government, November 1998, p. 4.

⁹Controls in an enterprise are designed to eliminate the harm that might occur to a company due to the misuse of assets, inaccurate and unreliable accounting data, operational inefficiency, and deviation from prescribed managerial policies. *The Accounting Review*, "Internal Control Evaluation and Audit Program Modification," April 1966, page 284.

- Cash was not properly safeguarded and recorded;
- Access to cash was not limited to only a few designated essential employees;
- Cash advance receipt slips were not pre-numbered - thereby providing no way to effectively account for all cash advances and repayments (records poorly maintained);
- Vault combinations and keys to cash boxes were not restricted to only a few designated essential employees;
- Vault combination was not changed as personnel changed;
- Personal checks were cashed from the cash advance fund in violation of CFO policy; and
- Written procedures for cash operations were not maintained at cashiering sites.

Operations Manager Failed to Maintain Adequate Records to Support the Cash Advance Operations

According to Government Internal Control Standards, issued by the Comptroller General of the United States:¹⁰

"Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help ensure that all transactions are completely and accurately recorded."

Further, according to 1 DCMR § 1502.1 (2001):

*"Agency heads shall establish controls over the creation of records to ensure that adequate and proper records are made and preserved in the District government."*¹¹

¹⁰See United States General Accounting Office, Standards for Internal Control in the Federal Government, November 1998, p. 15.

¹¹See 1 DCMR § 1502.3, which further states: "The record of every transaction of public business by any District official or employee shall be complete to the extent required by the following: (a) to facilitate actions by incumbents and their successors in office; (b) to make possible proper oversight by the Council of the District of Columbia, courts and other authorized agencies of the government, and other persons responsible for the manner in which public business has been discharged; and (c) to protect the financial, legal and other rights of the government and of persons affected by the government's actions."

The Auditor found that accountable OFT officials failed to maintain complete records of cash advance transactions. In response to the Auditor's request for a comprehensive listing of all cash advances issued during the audit period, the Operations Manager stated he did not maintain a comprehensive database or master listing of all cash advances requested, received and repaid. In an attempt to respond to the Auditor's request, the Operations Manager indicated that he and other OFT staff had to develop a listing using several sources of documents. Submission of the requested information took several weeks to compile and when finally submitted to the Auditor it was significantly incomplete. The Operations Manager failed to maintain complete documentation of each cash advance and repayment transaction.

Lack of Segregation of Duties

Chapter V, Section 1010.300 (B) of the OCFO's Policies and Procedures Manual states:

"Segregation of duties must be the first priority of an agency when handling cash receipts and disbursements and record-keeping functions."

The Auditor found that the Operations Manager, or his designee, exclusively controlled the cash advance and repayment process from approval to repayment. Further, there was no discernable oversight by upper management. The Operations Manager functioned as a virtual one man-show with no working system of checks and balances in place to identify errors or improprieties and to ensure complete accountability for all cash advance transactions. The Auditor found that this occurred primarily because the Operations Manager and his designees failed to comply with the internal control procedures set forth in Control Order No. 98-25 (see Auditor's discussion later in this report). In violation of the segregation of duties principle, OFT's Operations Manager:

- received cash advance requests;
- approved requests;
- directed cashiers to disburse cash advances;
- collected repayment of cash advances;
- instituted collection efforts for employees who failed to repay cash advances;
- controlled and maintained all records of cash advances and repayments, including unpaid cash advances; and
- failed to provide periodic reports to OFT senior management of cash advances approved, issued, repaid, and not repaid.

Cash advances and repayments were not recorded in the District's System of Accounting and Reporting (SOAR). As a result, the Auditor was not able to verify the accuracy of information obtained from the Operations Manager through any independent sources not controlled by the Operations Manager.

The Auditor also found a lack of segregation of duties by the Cashiering Manager and cashiers at the main cashiering site. Cashiers issued cash advances to employees, maintained the signed cash advance receipts, which were not pre-numbered, collected repayments, and maintained cash owed to employees from cash advance repayments that exceeded the amount they owed. This practice represented a serious and inexcusable violation of internal controls. In fact, the failure to promptly return overpayments to employees provided a source of cash that at a minimum: (1) could be used to manipulate discrepancies in the cash advance fund; and/or (2) could be misused or misappropriated given the cash advance operation's dysfunctional management and accountability environment.

These internal control failures increased the potential for fraudulent schemes and improper activities to occur and remain undetected for a long period of time.

OFT Holding Approximately \$26,000 In Cash Owed to District Employees

Chapter V, Section 1010.300 (D) of the OCFO's Policies and Procedures Manual states:

"Cash must be properly safeguarded and recorded."

The Auditor found that approximately \$26,000 in cash owed to numerous District government employees was inexplicably maintained at OFT's main cashiering site. The \$26,000 consisted of cash advance over-repayments that were not returned to employees. Cashiers responsible for making cash advances maintained the excess cash in small individual envelopes with a copy of the employee's cash advance receipt attached. The envelopes were maintained in an unlocked plastic container which was kept in the vault at the cashiering site. The Operations Manager prepared a list of overpayments based on information reported by the cashiers. The list included the employees' name, amount owed to employees, and the agency where the employee worked. The amounts owed ranged from a low of \$.08 to a high of \$2,277.36. Over \$5,000 for 79 employees has been held since the end of calendar year 2005. The practice of maintaining excess cash in this manner for long periods of time places these funds at risk of being lost, stolen, misused, or misplaced. Further, because there were inadequate checks and balances and poor management

oversight, the Auditor was not assured that the cashiers or the Operations Manager properly accounted for this source of excess cash.

Table II presents the balances owed to District employees for the period FYs 2005 through 2008, as of February 2008.

TABLE II
Balances Owed Employees for FY 2005 through FY 2008
as of February 2008

Fiscal Year	Amount
2005	\$2,854.83
2006	\$8,307.74
2007	\$13,097.00
2008	\$1,501.53
Total	\$25,761.10

Source: OFT

According to information submitted by the Operations Manager, e-mails were forwarded to agency human resource managers every two to three months notifying them of the amounts owed their employees. Further, according to the Operations Manager, it was the agency's responsibility to notify employees of the amounts they were owed.

The Auditor also found that OFT had not reported the excess cash to the Unclaimed Property Program or recorded the liability in SOAR as of the date of the Auditor's fieldwork.

Serious Security Deficiencies Existed at Cashiering Sites

Chapter V, Section 1010.300 (D) of the OCFO's Policies and Procedures Manual states:

"Cash must be properly safeguarded..."

Further, according to Section 1010.300 (P) of the OCFO's Policies and Procedures Manual:

"There should be adequate physical facilities...for the safeguarding of cash prior to deposit."

The Auditor's inspection revealed that the cash advance fund and cash receipts at another cashiering site were not properly safeguarded. Several essential security measures were either non-existent, or did not operate properly. The deficiencies identified by the Auditor included:

- Broken doors and a broken door lock;
- Window to the cashier's area was not bullet proof;
- Cash advance funds were maintained in unlocked boxes;
- Combination to the vault was not changed when staff were no longer employed at site;
- Cashiers entered vault area from main corridor - providing an opportunity for an unauthorized individual(s) to force entry into the vault.

RECOMMENDATIONS

1. The Associate Treasurer, Operations and Banking, immediately discontinue allowing the Operations Manager or designees to handle multiple phases of the cash advance process and establish a sound and effective system of separation of duties.
2. The Associate Treasurer, Operations and Banking, must immediately ensure that the cash advance and cashiering operation comply with all applicable OCFO orders and internal control policies.
3. The Associate Treasurer, Operations and Banking, immediately devise a plan to return to current and former District government employees the approximately \$26,000 in cash which is owed in overpayments. To the extent OFT is unable to return the cash to its rightful owner, these amounts must be properly categorized as a liability and recorded in the District's SOAR and reported correctly and promptly to the Office of Unclaimed Property.
4. The Associate Treasurer, Operations and Banking, take immediate steps to correct all physical security deficiencies noted by the Auditor at cashiering sites managed by OFT.

CASH ADVANCES REVIEWED BY THE AUDITOR DID NOT COMPLY WITH THE CFO'S ORDER

As previously stated, the CFO's policy for cash advances was established by Financial Management and Control Order No. 98-25, dated December 29, 1998, and was further clarified in a January 7, 1999, memorandum. The Auditor found widespread non-compliance with the Order and clarifying memorandum as discussed in more detail below.

District's Treasurer Failed to Issue a Formal Delegation of Authority to the Operations Manager or Other Designees

Sections A(1) and (2) of Control Order No. 98-25 states:

"Effective the date of this order, cash advances will only be made at the discretion of the District of Columbia Treasurer under the following limited conditions: [Emphasis Added]

- a. *Loss of an employee's paycheck through mutilation or destruction for which proof of receipt can be demonstrated.*
- b. *In the Treasurer's sole discretion, that a cash advance is warranted to maintain the credit of the District, correct an error of the District government, or other similar circumstance and that there is a reasonable payment method available." [Emphasis Added]*

"Effective the date of this order, cash advances will be limited to a maximum of \$250.00. However, the Treasurer has the authority in his sole discretion to approve higher amounts for non-payroll related cash advances in unusual circumstances; provided, that said funds shall not exceed the maximum amount of the cash advance fund." [Emphasis Added]

The Auditor found that the Operations Manager or designees approved cash advances although not authorized to do so by Control Order No. 98-25.¹² On January 24, 2007, the current Treasurer issued a memorandum to the Operations Manager identifying six OFT officials (including himself and the Operations Manager) who were authorized to approve cash advances. Prior to the

¹²The position description for the Operations Manager also did not authorize the approval of cash advances.

January 24, 2007 memorandum, OFT could not document that any prior District Treasurers had delegated their authority to issue cash advances to other OFT officials. As a result, cash advances approved prior to January 24, 2007, did not comply with the Control Order. Moreover, the Auditor found that the January 24, 2007 memorandum did not provide specific authority to the Operations Manager or the other OFT officials to approve cash advances for amounts exceeding \$250 and, with certainty, did not specifically delegate authority to approve higher amounts for non-payroll cash advances related to unusual circumstances.

Operations Manager Established Unauthorized Practices To Make Cash Advances More “Employee Friendly”

Based on an opinion from the OCFO’s General Counsel:¹³

“...generally, the CFO has legal authority to issue orders under section 424 of the Home Rule Act, the District of Columbia Self Government and Governmental Reform Act of 1973 (Pub. L. No. 93-198), as amended by the 2005 District of Columbia Omnibus Authorization Act (Pub. L. 109-356), approved October 16, 2006. CFO Orders are then used as directives for policy and procedures within the OCFO, or for guidance relating to matters over which the CFO has jurisdiction...”

The Auditor found that the Operations Manager established unauthorized cash advance practices that were not officially sanctioned by the CFO in an order issued pursuant to Section 424 of the Home Rule Act. In a memorandum dated January 4, 2007, the Operations Manager stated:

“Since the signing of CFO order No. 98-25, the CFO’s staff has requested that we consider the financial hardships encountered by employees when they are not paid as scheduled and make the cash advance policy more “employee friendly.” As a result, the procedure has evolved into its present form.” [Emphasis Added]

However, neither the Operations Manager nor other accountable OFT officials could document that Control Order No. 98-25 was amended, revised or approved by the CFO to authorize the Operations Manager’s “policy” changes.

¹³See e-mail dated February 7, 2007 to ODCA Legal Advisor.

Payroll Related Cash Advances Approved for More than \$250

According to Control Order No. 98-25:

"Effective the date of this order, cash advances will be limited to a maximum of \$250.00. However, the Treasurer has the authority in his sole discretion to approve higher amounts for non-payroll related cash advances in unusual circumstances; provided, that said funds shall not exceed the maximum amount of the cash advance fund."

Thus, based on Control Order No. 98-25, payroll related cash advances could not be approved for more than \$250. Yet, the Auditor found that 2,376 advances, totaling approximately \$2,580,184, or 98%, of the 2,431 cash advances approved by the Operations Manager from October 2004 through January 15, 2008, violated the \$250 limit set forth in Control Order No. 98-25.

Cash Advances Were Approved and Issued for Lost and Stolen Paychecks

Control Order No. 98-25 Sections B (Lost Paychecks) and C (Stolen Paychecks) respectively, state:

LOST PAYCHECKS

"An employee who has not received his/her paycheck in the mail must notify his/her payroll office. If, after seven (7) business days after the employee's scheduled pay day, the check has not been returned to the Disbursing Unit by the United States Post Office, the employee may request a replacement check. The employee shall fill out the required forms and a disbursing clerk shall place a stop payment request with the bank of record. Once the bank confirms that the check has not been paid, the Disbursing Unit shall follow the normal procedures to obtain a replacement paycheck for the employee."

Cash advances will not be made to employees under this section. Therefore employees are strongly encouraged to establish direct deposit of paycheck in order to avoid any delays in receiving their salary on their scheduled pay day."

STOLEN PAYCHECKS

In the event an employee's paycheck is stolen, the employee shall follow the same procedures for a lost check to obtain a replacement check. .. If the bank determines that the check was negotiated fraudulently, the employee shall receive a replacement check issued by the bank.

Cash advances will not be made to employees under this section. Therefore employees are strongly encouraged to establish direct deposit of paycheck in order to avoid any delays in receiving their salary on their scheduled pay day."

The Auditor found that, in violation of Control Order 98-25, at least 45 cash advances totaling approximately \$47,153 were made to District employees for lost and stolen paychecks. The option of direct deposit was available to employees whose paychecks were lost or stolen but the employees did not utilize this option. The Auditor found that when stolen checks were fraudulently negotiated, the Operations Manager, in violation of Control Order No. 98-25, approved a cash advance for the employee. The bank then reimbursed the cash advance fund rather than issuing a check directly to the employee as directed by the Control Order.

Cash Advance Installment Payments Violated Control Order No. 98-25

According to Control Order No. 98-25:

"Effective the date of this order, all employee cash advances will be automatically deducted in full by the Office of Pay and Retirement Services from the next scheduled paycheck. If an employee or a former employee is not entitled to a paycheck, deductions may be made from other forms of authorized pay including but not limited to back pay, severance pay and lump-sum leave payments." [Emphasis Added]

The Auditor found that cash advance repayments were not always automatically deducted from the employees' next scheduled paycheck as required by Control Order No. 98-25. In some instances, the Operations Manager allowed employees to repay cash advances in installment payments while in other instances supplemental checks issued for repayment of cash advances were not issued timely. The Auditor reviewed approximately 600 cash advances issued in FY 2007. Of the 600 reviewed, approximately 130, or 22%, totaling approximately \$160,000, were not repaid by the next scheduled paycheck. The Operations Manager's approval for employees to repay advances in installments violated Control Order No. 98-25 and essentially circumvented OPRS' responsibility

and procedure for deducting payments in full from an employee's next scheduled paycheck thereby excluding OPRS from the process. Moreover, OPRS' involvement was a control procedure that could have provided an independent record of repayment. The Operations Manager's actions circumvented this control and thus constituted a serious internal control violation. Further, the Operations Manager's circumvention went undetected and uncorrected because OFT senior management failed to properly supervise the Operations Manager and monitor the cash advance operations.

As of the date of the Auditor's fieldwork, District employees owed approximately \$3,963 to the District for cash advances not repaid. One amount, \$285.55 has been owed since January 6, 2006, and \$3,500 has been owed since August 8, 2007.

Cash Advances Approved and Issued for Missing or Late Payroll Documentation

According to the January 7, 1999, memorandum issued by a former Deputy CFO and Treasurer:

"In the future, shortfalls in employee pay caused by missing or late payroll documentation must be resolved by the originating agency, in conjunction with the Office of Pay and Retirement Services, if appropriate. Cash advances will no longer be approved in these instances."

The Auditor found that, in violation of Control Order No. 98-25 and the January 7, 1999 memorandum, the Operations Manager approved payroll-related cash advances for shortfalls in employee pay caused by late or non-submission of payroll documents including personnel actions and timesheets (see Appendix III). According to documentation provided by OFT, approximately 2,321 cash advances totaling approximately \$2,472,788 were related to payroll errors including late or non-submission of payroll documents.

Definition of Unusual Circumstance Not Provided

Control Order No. 98-25 states:

"...However, the Treasurer has the authority in his sole discretion to approve higher amounts for non-payroll related cash advances in unusual circumstances; provided..."

The Auditor found at least 59 cash advances totaling approximately \$65,000 approved by the Operations Manager, rather than the Treasurer, were for “emergency” purposes or personal non-payroll related reasons (see examples in Appendix IV). Because Control Order No. 98-25 failed to define “unusual circumstances,” the Operations Manager approved cash advances that may not be considered “unusual.”

Employee Acted Without Official Authority

In accordance with Control Order No. 98-25, cash advances in unusual circumstances for non-payroll related reasons could be made by the District’s Treasurer as follows:

“...However, the Treasurer has the authority in his sole discretion to approve higher amounts for non-payroll related cash advances in unusual circumstances; provided, that said funds shall not exceed the maximum amount of the cash advance fund.”
[Emphasis Added]

As stated earlier, the Operations Manager operated the cash advance activity as a virtual one-man show and approved all cash advances without any discernible input from the Treasurer. The Auditor found that on one occasion the Operations Manager requested the opinion of the District’s Treasurer regarding a \$7,000 cash advance request on behalf of an employee to pay her mortgage. The District’s Treasurer disapproved the cash advance request.¹⁴ However, despite the Treasurer’s disapproval and in violation of Control Order No. 98-25, the Operations Manager made a \$2,000 cash advance to the employee on September 27, 2007, which was repaid by the employee in four installments.

RECOMMENDATIONS

1. The District’s Treasurer and Associate Treasurer, Operations and Banking, hold OFT staff who approved cash advances which violated Control Order No. 98-25 accountable to the fullest extent permitted by applicable personnel rules up to and including termination.

¹⁴The District Treasurer responded in an e-mail dated September 20, 2007: “While I am sympathetic to her plight, the request is probably better categorized as a loan than a cash advance, for several months with installment payments, and I don’t think it is appropriate for us to make such a loan. There are other employees who would want a loan (interest-free) from the government if they could get it, and that is not something that’s within our scope of services.”

2. The Associate Treasurer, Operations and Banking, ensure that all OFT staff strictly adhere to Control Order No. 98-25.
3. The District's Treasurer in conjunction with OPRS, should strongly encourage District employees to choose direct deposit of their paychecks. District employees choosing not to participate in the direct deposit program should be informed of the risk associated with paper paychecks and that the District will not issue cash advances for lost or stolen payroll checks.

OPERATIONS MANAGER APPROVED CASH ADVANCES THAT DID NOT ADHERE TO STATED PROCEDURES

The Summary of Cash Advance Procedures states, in relevant part, the following:

"If the cash advance request will be considered by OFT, agency representative will fax a request memo that has been signed by an authorized official at the agency. The memo should indicate why the employee did not receive his/her pay, corrective actions, employee name, SSN, organizational code, gross pay, and net pay. The source of repayment should also be indicated. This memo should be accompanied by a copy of either the stop payment or supplemental check request form."

The Auditor found that some cash advance requests did not comply with the procedures stated above. Nevertheless, these advances were approved by the Operations Manager. The approved non-compliant requests:

- o did not state how and when repayment would be made;
- o were not signed by an authorized agency official;
- o did not include employee information such as organizational code, gross pay and net pay;
- o were not in writing; and
- o did not indicate why the employee did not receive his/her paycheck or include corrective actions taken.

Further, employees did not provide sufficient relevant information documenting and justifying a claim of an "emergency" as the basis for a requested cash advance. In other words, the Auditor could not determine the legitimacy of the employees' claim of an emergency situation. The Operations Manager also did not always write "approved" on all requests. In some instances, the Auditor noted that despite the Operations Manager's failure to indicate whether or not the request was "approved," employees received the cash advance anyway.

RECOMMENDATION

The Associate Treasurer, Operations and Banking, must ensure that the Operations Manager or anyone approving cash advances adhere to established procedures based on a formally approved policy. Procedures must be officially communicated to all applicable agency personnel.

DISTRICT'S CASHIERING MANAGER USED "IOU PERSONAL CHECK" TO OBTAIN \$2,000 FROM THE CASH ADVANCE FUND

Chapter V, Section 1010.300 M of the OCFO's Policies and Procedures Manual states:

"Personal checks must not be cashed or used as an IOU to replace cash."

Despite this provision, the Auditor found that, during October 2007, the Cashiering Manager obtained \$2,000 from the cash advance fund and replaced the cash with an IOU personal check. As of February 25, 2008, the Cashiering Manager's IOU check had remained uncashed for approximately five-months.

The Cashiering Manager was responsible for submitting checks received for repayment of cash advances to the bank to be cashed, and thus was in a position to manipulate repayment of cash taken from the cash box, which represented a serious breach of the segregation of duties and the resulting risk. In other words, this manager was in a position to decide which checks were sent forward to the bank for cashing and which checks to hold back. This activity occurred in an environment of inadequate supervision by the Operations Manager.

According to documents provided for the Auditor's review, the Cashiering Manager, conducted 15 cash counts of the cash advance fund from October 2004 through January 15, 2008. The Operations Manager reviewed the results of only one (1) of the 15 cash counts. No documentation was provided indicating that the Operations Manager actually conducted any independent cash counts. As a result of the Operations Manager's lax supervision, the Cashiering Manager's IOU check went undetected until the Auditor discovered it during a surprise cash count conducted on February 25, 2008.¹⁵ Because there were limited and dysfunctional controls governing

¹⁵ According to the Associate Treasurer, Operations and Banking, a request was made of the CFO's Office of Integrity and Oversight (OIO) in August 2007 to conduct an unannounced cash count at cashiering sites managed by OFT. Despite the request, the unannounced cash count was not completed by the CFO's OIO as requested by the Associate Treasurer. The Auditor

the cash advance operation in addition to poor record-keeping practices, the Auditor was unable to determine how long and how widespread the practice of cashiers cashing personal checks from the cash advance fund, and whether these advances were ever repaid.

Head Cashier and Other Cashiers Also Cashed Personal Checks From the Cash Advance Fund or Cash Maintained at Cashiering Site

The Auditor was informed that cashiers often cashed personal checks for other cashiers. The Auditor was also informed that these checks were for small amounts and were submitted with other checks to be cashed for replenishment of the cash advance fund. Further, the Auditor was advised that cashiers had not been informed by management, orally or in writing, that this practice was improper and a violation of OCFO policy. The Auditor identified the following violations:

- a. Head Cashier at a cashiering site managed by OFT improperly obtained \$500 from cash maintained at the site for making change in exchange for IOU personal checks of \$200 and \$300 respectively— thus providing the cashier with unauthorized interest-free loans that remained unpaid, as of February 25, 2008, for approximately 11 and 10 months, respectively; and
- b. Cashiers improperly cashed checks for other cashiers including a \$20 check, dated February 20, 2008, and a \$100 3rd party check, dated February 13, 2008, against the cash advance fund.

The fact that the District's Cashiering Manager and a Head Cashier (employees in supervisory positions) engaged in a practice of taking cash from the cash advance fund or cash maintained at the site in exchange for IOU personal checks indicates that this activity may have been a condoned practice of cashiers managed by OFT.

Operations Manager Approved Two Cash Advances, Which Violated Control Order No. 98-25, Totaling \$1,100 for Head Cashier

The Auditor found that in addition to cashing \$500 in personal checks, as noted earlier, the Head Cashier at one of OFT's cashiering sites also received two cash advances totaling \$1,100. One

was provided with documentation supporting the completion of two reviews by OFOS in May 2005 and again in September 2007. The Auditor notes however, that given the amount of the cash advance fund of \$150,000, and the high volume of cash activity associated with the fund, additional unannounced counts should have been completed.

of the cash advances was for an emergency, and the other request did not provide a reason. The dates the Head Cashier received the cash advances, amounts approved by the Operations Manager, and the number of days before repayment are presented in Table III below.

TABLE III
Cash Advances Received by Head Cashier

Date Cash Advanced Received	Purpose	Amount of Cash Advance	Date Final Payment Made	# of Days To Repay Cash Advance
1/19/06	Emergency	\$300	Unknown	Unknown
3/31/06	Not Provided	\$800	2/27/07	333

Source: OFT

The Auditor could not determine the final payment date for the \$300 emergency cash advance because the documentation provided by the Operations Manager was incomplete. Additionally, the \$800 cash advance was not deducted in full from the Head Cashier's next paycheck, as required by Control Order No. 98-25, but was repaid in eight installments of \$100 each over 333 days from April 2006 through February 2007.

RECOMMENDATIONS

OFT's Associate Treasurer, Operations and Banking:

1. ensure that the Cashiering Manager's personal check for \$2,000, dated October 15, 2007, is cashed immediately and the cash placed in the cash advance fund;
2. immediately communicate both verbally and in writing to all OFT cashiers the OCFO's policy on cashing personal checks and strictly enforce this policy;
3. take steps to obtain immediate reimbursement from the Head Cashier for the two personal checks cashed totaling \$500;
4. institute procedures to ensure that all checks received for repayment of cash advances are cashed daily; and
5. ensure that regular unannounced cash counts are conducted at all OFT cashiering sites, by entities independent of Operations and Banking, throughout the fiscal year but no less than twice annually.

\$1,000 MISSING FROM VAULT AT AN OFT CASHIERING SITE

Chapter V, Section 1010.300 D, of the OCFO's Policies and Procedures Manual states:

"Cash must be properly safeguarded and recorded."

The Auditor found \$1,000 missing from \$5,000 in cash authorized to be maintained in the vault at one of the cashiering sites for the purpose of making change. Cashiers present at the time could not account for the missing \$1,000. The Auditor notes that the Head Cashier at this location was the same cashier who cashed two (2) personal checks totaling \$500 and who received the \$1,100 cash advance.

Further, Chapter V, Section 1010.606 E, of the OCFO's Policies and Procedures Manual states:

"All receipts shall be deposited daily..."

The Auditor also found that in violation of the OCFO's policy as stated above, Friday's receipts, which totaled \$1.7 million in checks, credit cards, and cash, at one of the cashiering sites were not deposited that day but were kept in the vault over the weekend until the following Monday. Three of the four cashiers at this cashiering site had the combination to the vault and therefore could have gained access to the vault anytime between Friday evening and Monday morning. The Head Cashier's failure to deposit the receipts on Friday placed these receipts at risk of theft.¹⁶

RECOMMENDATIONS

1. The District's Office of the Inspector General conduct an investigation to determine the status of the \$1,000 that was missing from the cash maintained in the vault at an OFT cashiering site.
2. OFT's Associate Treasurer, Operations and Banking ensure that Head Cashiers make daily deposits of all cash in excess of the amount maintained for making change. If necessary deposits should be made twice a day.

¹⁶According to information provided to the Auditor, OFT staff including cashiers are bonded under a blanket policy which covers OCFO employees.

CONCLUSION

The Auditor found that internal controls over the District's cash advance operations were extremely lax, and in some areas, nonexistent. The Auditor's examination found OFT's cashiering operations violated the following internal control policies established by the OCFO: (1) cash/checks were not promptly deposited; (2) duties were not segregated; (3) cash was not properly safeguarded and recorded; (4) access to cash was not limited to essential employees only; (5) cash advance receipt slips were not pre-numbered thereby providing no way to effectively account for all cash advances and repayments (records poorly maintained); (6) vault combination was not changed as personnel changed; (7) personal checks were cashed from the cash advance fund; and (8) written procedures for cash operations were not maintained at cashiering sites.

The Auditor also found that OFT was holding approximately \$26,000 in cash advance over-repayments owed to some District employees of which \$5,000 has been owed since calendar year 2005. The Auditor's examination found that the \$26,000 in excess cash was maintained in small envelopes in an unlocked plastic container which was kept in the vault at the cashiering site. The practice of maintaining excess cash in this manner for long periods placed these funds at risk of being lost, stolen, misused or misplaced.

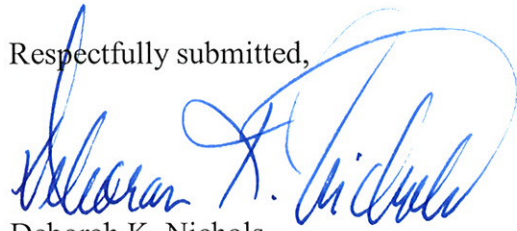
The Auditor further found serious security deficiencies at two OFT cashiering sites including broken doors and a broken door lock; windows to cashiers' areas that were not bullet proof; cash advance funds that were maintained in unlocked boxes; and cashiers who entered the vault area from the main corridor thereby providing an opportunity for an unauthorized individual(s) to force entry into the vault.

The Auditor's review further found widespread non-compliance with the Chief Financial Officer's Financial Management and Control Order No. 98-25, dated December 29, 1998, which was further clarified in a January 7, 1999 memorandum. Control Order 98-25 governed the cash advance operation. In particular, the Auditor found that: (1) the District's Treasurer failed to issue a formal delegation of authority to the Operations Manager or designees to approve cash advances; (2) 2,376 advances, totaling approximately \$2,580,184, violated the \$250 cash advance limit; (3) cash advances were approved and issued for lost and stolen paychecks in violation of the Control Order; (4) cash advance repayments were not always automatically deducted from employees' next scheduled paycheck, as required; (5) the Operations Manager approved two cash advances, totaling \$1,100 for a head cashier; and (6) cash advances were issued for missing or late payroll documentation.

The Auditor also found that, during October 2007, the Cashiering Manager obtained \$2,000 from the cash advance fund and replaced the cash with an IOU personal check. Further, the Auditor found that a head cashier also cashed \$500 in personal checks from cash maintained for making change, thus providing the cashier with unauthorized interest-free loans that remained unpaid as of February 25, 2008, for approximately 11 and 10 months, respectively. The Auditor also found that \$1,000 was missing from \$5,000 in cash authorized to be maintained in the vault at one of the cashiering sites for the purpose of making change. The Auditor noted that the head cashier at this location was the same cashier who cashed two (2) personal checks totaling \$500 and who received the \$1,100 cash advance.

Overall, the internal control failures and deficiencies identified by the Auditor substantially increased the potential for fraudulent schemes and improper activities to occur and remain undetected for a long period of time.

Respectfully submitted,

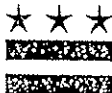


Deborah K. Nichols

District of Columbia Auditor

APPENDICES

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



Financial Administrative Issuance
Financial Management and Control Order No. 98-25

Issuance Date: December 29, 1998

Effective Date: December 29, 1998

Pursuant to the authority vested in me as Chief Financial Officer of the District of Columbia by Section 424 of the District of Columbia Home Rule Act of 1973 (P.L. 93-198), as amended by Section 302 of the District of Columbia Financial Responsibility and Management Assistance Act of 1995 (P.L. 104-8), and Section 142 of the District of Columbia Appropriations Act of 1997 (P.L. 104-94), it is hereby **ORDERED** that:

The following policy for cash advances, lost paychecks and stolen paychecks is hereby established.

A. CASH ADVANCES

1. Effective the date of this order, cash advances will only be made at the discretion of the District of Columbia Treasurer under the following limited conditions:
 - a). Loss of an employee's paycheck through mutilation or destruction for which proof of receipt can be demonstrated.
 - b). In the Treasurer's sole discretion, that a cash advance is warranted to maintain the credit of the District, correct an error of the District government, or other similar circumstance and that there is a reasonable payment method available.
2. Effective the date of this order, cash advances will be limited to a maximum of \$250.00. However, the Treasurer has the authority in his sole discretion to approve higher amounts for non-payroll related cash advances in unusual circumstances; provided, that said funds shall not exceed the maximum amount of the cash advance fund.
3. Effective the date of this order, all employee cash advances will be automatically deducted in full by the Office of Pay and Retirement Services from the next scheduled paycheck. If an employee or a former employee is not entitled to a paycheck, deductions may be made from other forms of authorized pay including but not limited to back pay, severance pay and lump-sum leave payments.

B. LOST PAYCHECKS

1. An employee who has not received his/her paycheck in the mail must notify his/her payroll office. If, after seven (7) business days after the employee's scheduled pay day, the check has not been returned to the Disbursing Unit by the United States Post Office, the employee may request a replacement check. The employee shall fill out the required forms and a disbursing clerk shall place a stop payment request with the bank of record. Once the bank confirms that the check has not been paid, the Disbursing Unit shall follow the normal procedures to obtain a replacement paycheck for the employee.
2. Employees or agencies may be charged an administrative fee to reimburse the District for the expense of the transaction.
3. Cash advances will not be made to employees under this section. Therefore, employees are strongly encouraged to establish direct deposit of paycheck in order to avoid any delays in receiving their salary on their scheduled pay day.

C. STOLEN PAYCHECKS

1. In the event an employee's paycheck is stolen, the employee shall follow the same procedures for a lost check to obtain a replacement check. If the bank of record indicates that the missing check has been paid, the Disbursing Unit shall request a copy of the paid item. The employee shall examine the copy to determine if he/she endorsed the check. If the employee did endorse the paycheck, he/she is not entitled to a replacement check. If the employee did not endorse the paycheck, he/she shall fill out an Affidavit of Forgery and the Disbursing Unit shall send this affidavit to the bank. If the bank determines that the check was negotiated fraudulently, the employee shall receive a replacement check issued by the bank.
2. Agencies may be charged an administrative fee for stolen paychecks in order to reimburse the District's expenses of the transaction.
3. Cash advances will not be made to employees under this section. Therefore, employees are strongly encouraged to establish direct deposit of paycheck in order to avoid any delays in receiving their salary on their scheduled pay day.

D. EFFECTIVE DATE: This Order shall be effective on December 29, 1998.

Earl C. Cabbell
Earl C. Cabbell, Interim Chief Financial Officer

12/29/98
Date

01/07/99

12:44

JAN 13 1999

98-25

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

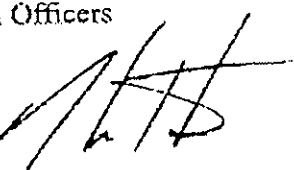
★ ★ ★

Thomas F. Huestis
Deputy Chief Financial Officer

Finance and Treasury

MEMORANDUM

TO: All Agency Chief Financial Officers

FROM: Thomas F. Huestis
Deputy CFO and Treasurer 

DATE: January 7, 1999

SUBJECT: New Policy for Cash Advances and Lost or Stolen Paychecks

The attached CFO Order No. 98-25 institutes a new policy restricting the receipt of cash advances by District employees. The policy is in response to the excessive use of cash advances to address payroll-related problems. In the future, shortfalls in employee pay caused by missing or late payroll documentation must be resolved by the originating agency, in conjunction with the Office of Pay and Retirement Services, if appropriate. Cash advances will no longer be approved in these instances. If warranted, supplemental adjustment forms can be submitted to the Office of Pay and Retirement Services to generate supplemental paychecks on an expedited basis.

I will continue to review new requests for cash advances up to \$250 under the limited conditions specified in the CFO Order.

Please familiarize yourself and your agency's employees with the provisions of CFO Order No. 98-25. If you have any questions, please call me at 727-2469, or George Rivera, Treasury Operations Officer, at 727-0780. Thank you for your cooperation.

Attachment

cc: Earl C. Cabbell, Interim CFO
Tammie Robinson, Chief of Staff to the Interim CFO
Stephen Taylor, General Counsel to the CFO
Craig Small, Associate Treasurer
George Rivera, Treasury Operations Officer
Judy Banks, Director, Office of Pay and Retirement Services

APPENDIX III

Sample of Some of the Reasons for Payroll Related Advances FYs 2005 through 2007

Date	Reason	Amount
10/29/04	employee timesheet not submitted	\$2,144.98
1/6/07	Delay in processing personnel action	\$1,800.00
7/24/06	employee did not receive paycheck	\$1,595.93
8/16/06	delayed processing of "notice of personnel action"	\$1,594.76
9/15/06	incorrect address in Peoplesoft system	\$1,393.00
6/25/07	personnel error	\$1,300.00
11/3/06	notification of personnel action not processed in a timely manner	\$1,191.94
11/3/04	paperwork not completed	\$1,075.73
5/23/07	personnel error	\$1,000.00
12/22/04	supervisor did not submit employee time sheet	\$1,000.00
7/3/07	time keeper failed to enter her time into Peoplesoft	\$980.30
2/26/07	administrative error, T&A not submitted timely	\$913.86
3/4/05	incorrect group code on time and attendance sheet	\$850.00
7/6/07	Employee's term extended; paper work processed late	\$800.00
8/31/07	no time was input into the system for this pay period	\$600.00
9/14/07	employee purged from the system	\$700.00
12/22/05	submitted incomplete time and attendance sheet	\$578.00
10/15/04	time and attendance sheets did not get processed in time to receive a paycheck	\$544.08
5/11/07	data entry error by DC Human Resources; name entered incorrectly in Peoplesoft	\$500.00
1/27/05	new employee personnel action not processed on time	\$228.40

Source: Agency request letters sent to OFT operations manager

APPENDIX IV

Sample of Some of the Reasons for Non-Payroll Related Employee Advances FYs 2005 through 2007

Date	Reason	Amount
6/25/07	relocation	\$4,400.00
12/1/04	mortgage arrears	\$3,500.00
5/2/07	family hardship-threat of eviction	\$2,114.00
7/27/07	family hardship	\$1,400.00
9/27/07	personal finance problem	\$2,000.00
11/29/04	delay in awarding leave from the annual leave bank, employee in financial hardship	\$1,200.00
2/6/07	personal reasons	\$1,200.00
9/27/04	bank returned check stating that the account was closed	\$1,084.07
4/27/07	pay rent, utilities	\$1,053.36
4/8/05	financial hardship	\$1,000.00
5/8/07	need of a cash advance	\$1,000.00
10/2/07	on a regular overtime schedule but due to illness, has family hardship	\$1,000.00
7/24/07	move to new apartment	\$900.00
12/21/06	house destroyed by a fire	\$900.00
1/12/07	financial obligations	\$863.00
6/17/05	facilitate health care cost of employee's elderly mother	\$800.00
3/1/07	facing eviction from home	\$800.00
11/2/04	theft-employee's cash stolen after check cashed	\$600.00
3/12/05	facilitate employee with cousin's funeral burial expenses	\$600.00
3/28/06	purse stolen. Need to pay day care services for grandson	\$600.00
12/7/04	funeral expense- death of employee's father	\$550.00
3/29/07	business travel	\$300.00
7/25/07	employee has hardship	\$300.00

Source: Agency request letters sent to OFT Operations Manager

AGENCY COMMENTS

AGENCY COMMENTS

On May 7, 2008, the District of Columbia Auditor (Auditor) submitted this report in draft to the Office of the Chief Financial Officer (OCFO), Office of Finance and Treasury, Office of Integrity and Oversight, Office of Pay and Retirement Services; and the Office of the City Administrator for review and comment.

The Auditor received written comments from the Office of the Chief Financial Officer, Office of Finance and Treasury on Monday, May 19, 2008, and Office of Pay and Retirement Services on Friday, May 16, 2008. No changes were made to the final report as a result of the received comments. All agency comments are appended in their entirety to this final report.



GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER
DEPUTY CFO FOR FINANCIAL OPERATIONS & SYSTEMS

OFFICE OF PAY & RETIREMENT SERVICES

441 4TH STREET, N.W.
SUITE 400 S
WASHINGTON, DC 20001-2725

May 12, 2008

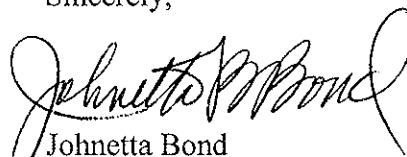
Deborah K. Nichols
District of Columbia Auditor
717 14th Street, N.W., Suite 900
Washington, D.C. 20005

Dear Ms. Nichols,

Thank you for the opportunity to review the draft report entitled "Review of the District's Cash Advance Fund". After a thorough review of the report and your findings, I do not wish to make any comments regarding the report. In addition, I do not find any exception to your recommendations.

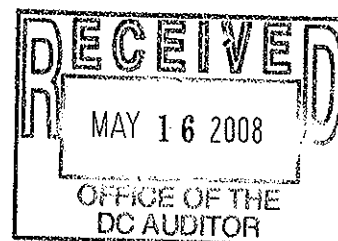
Again, on behalf of the Office of Pay and Retirement Services, I thank you for the opportunity to review and comment.

Sincerely,



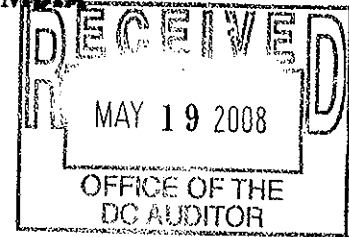
Johnetta Bond
Director

cc: Anthony Pompa, Deputy CFO, OFOS



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

Office of Finance and Treasury



May 16, 2008

Deborah K. Nichols
District of Columbia Auditor
717 14th Street, NW
Suite 900
Washington, DC 20005

Dear Ms. Nichols:

This correspondence is to provide comments on the draft report that you transmitted on May 7, 2008 entitled "Review of the District's Cash Advance Fund." The format of the response is to address each of the specific recommendations contained in the draft report of the Auditor, and to provide several additional comments after those responses.

Each of the recommendations contained in the Auditor's report, immediately followed by the response of the Office of the Chief Financial Officer (OCFO), Office of Finance and Treasury (OFT) to each Recommendation, are as follows:

Recommendations and Responses

1. *The Associate Treasurer, Operations and Banking, immediately discontinue allowing the Operations Manager or designee to handle multiple phases of the cash advance process and establish a sound and effective system of separation of duties.*
 - Response: This recommendation has been implemented. Since January 2008, approval of the Associate Treasurer or the Treasurer, and a senior official in the OCFO's Office of Pay and Retirement Services (OPRS), is required for a cash advance to be processed, and other changes have been made to the process to improve the internal controls and increase the separation of duties.
2. *The Associate Treasurer, Operations and Banking, must immediately ensure that the cash advance and cashing operation comply with all applicable OCFO orders and internal control policies.*

- Response: The Associate Treasurer has taken the necessary steps to ensure that the cash advance and cashing operation comply with all applicable internal control policies, and will ensure that all applicable OCFO orders are adhered to. We acknowledge that most of the cash advances that have been issued were not fully consistent with Financial Management and Control Order No. 98-25 ("Order 98-25"), issued in 1998 by a prior Chief Financial Officer (CFO). Specifically, as indicated in the Auditor's report, Order 98-25 does not permit payroll-related cash advances in an amount in excess of \$250, and does not permit cash advances in the event of lost paychecks or stolen paychecks. Order 98-25 does not specifically address situations in which there is an error in the processing of payroll for employees, but it does permit cash advances to "correct an error of the District government." The issuance of cash advances that were not fully consistent with Order 98-25 reflects a practice that developed since Order 98-25 was issued, placing primary importance on the principle that employees should be paid timely for the service that they have performed for the District of Columbia Government.

The payroll functions in each agency should do everything in their power to ensure that payroll is processed timely and accurately for all employees, minimizing the instances in which employees are not paid timely. However, we believe that when situations occur in which an employee is not paid timely due to no fault of his/her own, the impact on the employee should be minimized. Therefore, if for some reason an employee is not paid timely, OPRS and OFT will take the necessary steps to ensure that the employee is paid no later than the second business day following their scheduled payday, either by a supplemental paycheck, which is the preferred option, or a cash advance (secondary option). A new Chief Financial Officer Order (CFO Order) will be issued in the very near future, replacing and superseding Order 98-25 and providing for cash advances for payroll-related reasons in an amount up to the amount of an employee's net pay, to be repaid in full from the employee's next paycheck (the check that the employee should have received but did not). We will seek to keep the number cash advances to a minimum. We will ensure that the new CFO Order is strictly adhered to.

3. *The Associate Treasurer, Operations and Banking, immediately devise a plan to return to current and former District government employees the approximately \$26,000 in cash which is owed in overpayments. To the extent OFT is unable to return the cash to its rightful owner, these amounts must be properly categorized as a liability and recorded in the District's SOAR and reported correctly and promptly to the Office of Unclaimed Property.*
- Response: The OCFO's Office of Integrity and Oversight (OIO) is currently investigating the circumstances surrounding these funds, and will work with OFT to take the appropriate actions regarding the disposition of these funds as soon as possible.

4. *The Associate Treasurer, Operations and Banking, take immediate steps to correct all physical security deficiencies noted by the Auditor at cashiering sites managed by OFT.*

- Response: The Auditor's report cited several physical security conditions as being deficient, some of which have been addressed and others of which are in the process of being addressed. The broken door and broken door lock at the main cashiering site have been repaired. The cash advance funds are now maintained in a locked cash box inside the vault, which stays locked. The vault combinations are in the process of being changed (note: entry into the vault requires a combination to open the main (thick) vault door and a key to open a second vault door with steel bars). As the Auditor's report indicates, the cashiering area does not have bullet-proof glass, but there is protective glass. We will explore the feasibility of providing bullet-proof glass. It should be noted that at the main cashiering site, entry to the cashiering area requires passage through two doors, one of which is secured by an alarm system, and entry to the vault area requires passage through those two doors and a third door, not including the vault doors. As such, even prior to the recent repairs that have occurred, the conditions did not allow access into the cashiering area or the vault area without passage through at least one locked door, secured with an alarm.

5. *The District's Treasurer and Associate Treasurer, Operations and Banking, hold OFT staff who approved cash advances which violated Control Order No. 98-25 accountable to the fullest extent permitted by applicable personnel rules up to and including termination.*

- Response: The Operations Manager in OFT who managed the cash advance function and approved all of the cash advances that were done, is no longer employed with the District. The Operations Manager was the supervisor of the Cashiering Manager. The Cashiering Manager was responsible for a portion of the execution and record-keeping associated with cash advances, and was responsible for the management of the various cashiering sites. The Cashiering Manager is also no longer employed with the District.

6. *The Associate Treasurer, Operations and Banking, ensure that all OFT staff strictly adhere to Control Order No. 98-25.*

- Response: As stated above, Order 98-25 is being replaced and superseded by a new CFO Order, and the Treasurer and Associate Treasurer will ensure that it is strictly adhered to by all OFT staff.

7. *The District's Treasurer in conjunction with OPRS should strongly encourage District employees to choose direct deposit of their paychecks. District employees choosing not to participate in the direct deposit program should be informed of*

the risk associated with paper paychecks and that the District will not issue cash advances for lost or stolen payroll checks.

- Response: For many years, the OCFO and OFT have strongly encouraged employees to choose direct deposit of their paychecks. These efforts have helped produce the current situation in which approximately 90% of employees get paid via direct deposit. We will continue to make efforts to encourage those who still receive paper checks to receive their pay via direct deposit.

8. Associate Treasurer, Operations and Banking, ensure that the Cashiering Manager's personal check for \$2,000, dated October 15, 2007, be cashed immediately and the cash placed in the cash advance fund.

- Response: The (former) Cashiering Manager provided \$2,000 in cash to replenish the cash advance fund to its appropriate level. (The personal check was not cashed or deposited.)

9. Associate Treasurer, Operations and Banking, immediately communicate both verbally and in writing to all OFT cashiers the OCFO's policy on cashing personal checks and strictly enforce this policy.

- Response: This has been done, with the written communication having occurred in the form of a directive to all cashiers from the Treasurer expressly prohibiting this practice.

10. Associate Treasurer, Operations and Banking, take steps to obtain immediate reimbursement from the Head Cashier for the two personal checks cashed totaling \$500.

- Response: Steps are being taken to recover this \$500. This supervisory Cashier is no longer employed with the District.

11. Associate Treasurer, Operations and Banking, institute procedures to ensure that all checks received for repayment of cash advances are cashed daily.

- Response: There are no cash advances currently outstanding. Any future repayment of cash advances will be directly from payroll checks produced by OPRS and will be transacted on the day of receipt.

12. Associate Treasurer, Operations and Banking, ensure that regular unannounced cash counts are conducted at all OFT cashiering sites, by entities independent of Operations and Banking, throughout the fiscal year but no less than twice annually.

- Response: Within the past two months, unannounced cash counts have been conducted by OIO officials at all cashiering sites, and all were found to have the appropriate balances on hand. Unannounced cash counts will be conducted on at least a quarterly basis going forward, and procedures are in place to verify (with multi-person verification) the balances on hand on at each cashiering site on a daily and weekly basis. In addition, receipts are reconciled, verified and deposited on a daily basis.

13. The District's Office of the Inspector General conduct an investigation to determine the status of the \$1,000 that was missing from the cash maintained in the vault at an OFT cashiering site.

- Response: OIO has investigated this matter, this (former) supervisory Cashier has acknowledged owing these funds to the District, and appropriate steps are being taken to recover these funds. Administrative action was taken against the employee involved, and OIO referred the matter to the Office of the Inspector General for further action.

14. OFT's Associate Treasurer, Operations and Banking ensure that Head Cashiers [supervisory Cashiers] make daily deposits of all cash in excess of the amount maintained for making change. If necessary deposits should be made twice daily.

- Response: This is being done. Deposits of the receipts from each cashiering site are being made on a daily basis.

Additional Comments Regarding Audit Findings

- The figures cited in the Auditor's report indicate that approximately 98 percent of the cash advances issued during the period covered by the audit were for payroll-related reasons, meaning that they represent salary/wage payments to employees who did not receive their paychecks (or direct deposit) on the date on which they were scheduled to be paid. This was due to various circumstances or isolated incidents associated with payroll processing in/for their respective agencies, and in a relatively small number of cases, due to lost or stolen paychecks.
- Order 98-25 permits cash advances for non-payroll-related reasons; however the Treasurer instituted a new cash advance policy in January 2008, which provides that cash advances shall not be issued for non-payroll-related reasons. The new CFO Order regarding cash advances will also prohibit non-payroll-related cash advances.

Conclusion

The OCFO and OFT are committed to ensuring that, going forward, the functions that were the subject of this audit are managed efficiently and effectively, with appropriate internal controls, and we have taken the necessary steps to ensure that result.

Sincerely,

A handwritten signature in black ink, reading "Lasana K. Mack" followed by a stylized flourish or initial.

Lasana K. Mack
Deputy Chief Financial Officer and Treasurer

cc: Natwar M. Gandhi, Chief Financial Officer
Robert G. Andary, Executive Director, Office of Integrity and Oversight