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District of Columbia's Controls over Undelivered Checks and Controls to Prevent Duplicate Payments. FGMSD-76-75; B-118638. December 7, 1976. 12 pp.

Report to Walter E. Washington, Mayor, District of Columbia; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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The District of Columbia's accounting controls over undelivered checks and the adequacy of internal controls established to prevent duplicate payments were reviewed. The review covered only those checks issued for miscellaneous disbursements other than payroll, income tax return, and welfare payments. Findings/Conclusions: Checks for 179 duplicate payments totaling about \$47,000 were returned by payees during fiscal 1975. Accounts payable records did not easily identify all prior payments; the District Accounting Office and District agencies did not maintain adequate support documentation to prevent authorization of duplicate payments. Basic payment documents needed to account for disbursements, such as invoices, bills, or statements of account, were lacking. Hundreds of issued checks were unnecessarily held by the District, which also made little attempt to locate payees whose checks were returned by the Postal Service. Funds from undelivered checks were improperly restored to appropriations. Recommendations: The District's accounts payable recordkeeping system should be improved and accounts payable records of the District Accounting Office should be periodically reconciled with those at agency locations. Checks on hand should be delivered promptly, or, if undeliverable, deposited in the U.S. Treasury. (BFS)

00269



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

DEC 7 1976

B-118638

The Honorable Walter E. Washington
Mayor of the District of Columbia

Dear Mayor Washington:

This report presents the results of our review of the District of Columbia Government's accounting controls over undelivered checks and the adequacy of internal controls established to prevent duplicate payments.

The Budget and Accounting Procedures Act of 1950 subjects the District's accounting systems to approval by the Comptroller General. The approval is given in two stages-- first to the statements of principles and standards established to govern accounting systems, and second to the designs of the accounting systems. In February 1972 the Comptroller General approved the District's accounting principles and standards, but he has not approved the design of the system.

In both our report to the House Committee on the District of Columbia (FGMSD-76-42, Feb. 27, 1976) and our September 1975 letter to you, we commented on the slow progress being made in improving the District's accounting systems and identified major problems. Also, Arthur Andersen and Company identified a number of critical accounting and reporting problems in its June 19, 1976, report to the Senate Committee on the District of Columbia.

Each year the District makes about 150,000 miscellaneous disbursements (other than payroll, income tax return, and welfare payments). Our review included only those checks issued for such miscellaneous disbursements and was made at the District Accounting and Disbursing Offices and eight District agencies. We observed and tested the manual and automated procedures used to control and account for undelivered checks. We also interviewed District personnel and examined the District's controls for preventing duplicate payments.

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In this report, we recommend that management and accounting controls be strengthened to (1) properly account for undeliverable checks, thereby preventing possible overexpenditure of appropriations and violations of law, (2) prevent overpayments to vendors and reduce the administrative costs of correcting erroneously issued checks, and (3) promptly cancel undelivered and returned checks, thereby avoiding their possibly being lost or stolen.

NEED FOR BETTER CONTROLS TO
PREVENT DUPLICATE PAYMENTS

The District needs to improve its controls over disbursements to prevent duplicate payments. The District's disbursing records showed that checks for 179 duplicate payments totaling about \$47,000 were returned by payees during fiscal year 1975.

Procedures for control over disbursements in GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24) state that:

- Disbursements shall be supported by basic payment documents, such as invoices, bills, or statements of accounts, showing sufficient information to adequately account for disbursements.
- Agencies shall establish such procedures as may be necessary to prevent duplicate payments.

In the check disbursement process, District agencies (departments and boards responsible for District activities) initiate obligating documents, receive goods and services, and approve vouchers for payment. The District Accounting Office audits and certifies the accuracy and legality of payments and maintains District-wide accounting records. After the vouchers are certified, checks are prepared by the District's computer facility or the U.S. Treasury and then signed and issued at the District Disbursing Office.

To ascertain if duplicate payments other than those returned by payees were being made, we tested disbursements for the 3-month period ended June 30, 1975. At our request the District prepared a computerized list which we used to identify payees who were issued 2 or more checks for the same amount. From the list we identified 21 duplicate payments. Of the 21,

only 6 had been reported by the payees, who returned the checks. The remaining 15 checks, amounting to \$2,352, were cashed.

We gave the District a list of the 15 duplicate payments, and it obtained refunds from 13 payees by collections, applications of credits to subsequent invoices, or District inter-agency transfers. Collection action was in process for the other two payees.

We believe the District made these duplicate payments because prior payments to vendors could not easily be identified in accounts payable records and because payments were being made without proper supporting documentation.

Accounts payable records did not easily identify all prior payments

The District Accounting Office and District agencies could not easily determine whether vendor invoices were paid. Accounting records, vouchers, purchase orders, and receiving documents, which show the status of accounts payable, were not filed in a systematic order that would facilitate locating them. The District Accounting Office and agency personnel were therefore required to make extensive and time-consuming searches for past payment data. For example, when we asked for a number of paid vouchers, an agency employee searched eight files for about 4 hours to locate one voucher.

Payments made without adequate supporting documentation

District agencies did not maintain adequate supporting documentation to prevent authorization of duplicate payments. Basic payment documents needed to account for disbursements, such as invoices, bills, or statements of account, were lacking. In two District agencies, the Department of Corrections and the Department of General Services, we noted that for fiscal year 1975 many payments were not supported by authorizing documents or were not properly filed or marked to indicate that payment was made.

To find out why duplicate payments were being made, we asked Corrections personnel to locate 86 vouchers representing original and corresponding duplicate payments. They located only 47 of the 86 vouchers. Of the 47, 22 were supported by inadequate documentation (packing lists, letters

from vendors, agency generated receiving reports) instead of original invoices, 7 were completely unsupported, and 18 were supported by original invoices.

During the search for supporting documentation, we also identified a triplicate payment. The following are examples of duplicate and triplicate payments made and the extent of supporting documents furnished by agency personnel:

- Duplicate payment of \$221.41 for engineering supplies. The first payment was unsupported. The second payment was supported by a letter from the vendor requesting payment and a photocopy of the original invoice.
- Triplicate payment of \$26.50 for typewriter repairs. The first payment was supported by the original invoice. The second was supported by a past-due copy of the invoice, and the third payment was unsupported.
- Duplicate payment of \$778.04 for electrical supplies. The first payment was unsupported. The second was supported by a photocopy of the original invoice.

We also tested payment records at the Department of General Services to find supporting documentation for 419 payment transactions. Of the 419 transactions, we noted that supporting documents for 340 were misfiled, missing, or if found, their payment status could not be determined. Supporting documentation for the remaining 79 payment transactions was adequate.

During our review, officials of the District Accounting Office changed the District's procedures to require agencies to submit original invoices with disbursement vouchers. The new procedures, effective January 1, 1976, also require agencies to certify when the original invoice is lost or misplaced and that "* * * administrative control has been established to preclude a duplicate payment being made * * *."

CONCLUSIONS AND RECOMMENDATIONS

We believe the District can better prevent duplicate payments by properly supporting all disbursements and by maintaining more accurate payment files and accounting records to identify payments made. We recommend, therefore, that you direct the District Accounting Officer, in coordination with the heads of agencies, to:

- Improve the District's accounts payable recordkeeping system, thereby enabling agencies to quickly identify all previous payments made to a specific payee.
- Periodically reconcile accounts payable records maintained at the District Accounting Office with those at agency locations.

Agency comments

District officials generally agreed with our recommendations and said that actions were taken or were planned to minimize the number of duplicate payments.

HUNDREDS OF ISSUED CHECKS HAVE BEEN UNNECESSARILY HELD BY THE DISTRICT

District offices were holding, without adequate safeguards, hundreds of issued checks which should have been promptly delivered to payees or deposited in the U.S. Treasury. This group included checks that had not yet been sent to payees and checks that had been sent but were returned by the Postal Service. As a result, some payees made second requests for payment, some were not paid, and some were paid late.

The District follows the disbursing and other fiscal procedures of the U.S. Treasury, which are contained in the Treasury Fiscal Requirements Manual. The manual requires Disbursing Offices to send notices to initiating agencies advising them of returned checks and requesting advice on the disposition of the checks--whether they should be remailed, canceled, or deposited as undeliverable. The manual also states that all agencies are urged to deposit undeliverable checks in the U.S. Treasury as soon as practicable in order to (1) facilitate the safekeeping of such checks, (2) place the amounts of such checks under appropriate accounting controls at the earliest practicable date, and (3) eliminate the checks from being continuously outstanding in the accounts of Government disbursing offices.

Improved efforts to locate payees of checks returned to the Disbursing Office

The District made little attempt to locate payees whose checks were returned by the Postal Service as undeliverable. Instead, the returned checks were held about 3 months before the District deposited them in the U.S. Treasury. Payee

reimbursement, therefore, was delayed. Also, we believe additional work was required to adjust the District's accounting records and to maintain and process information needed to subsequently make payments to requesting payees.

The District Accounting Manual (Title 7, ch. 18), which incorporated provisions of the Treasury Fiscal Requirements Manual, requires the District Disbursing Office to notify the District Accounting Office of returned checks and to request instructions to remail, cancel, or deposit the checks as undeliverable. Prior to January 1976, the Disbursing Office did not normally notify the District Accounting Office of checks returned and did not request instructions for their disposition. The District Accounting Office, therefore, could not take action to determine if a current address was available or if the check should be canceled or deposited as undeliverable.

A District disbursing official told us in November 1975 that about 100 checks a month, or 1,200 a year, were being returned by the Postal Service to the Disbursing Office and that more than 95 percent of these checks were not delivered to the payees. We believe that many of the checks could have been delivered had the District Disbursing Office promptly requested additional delivery information from the District Accounting Office.

The following example illustrates the steps that could be taken to deliver returned checks. Two checks for \$960 and \$672 were sent to a company in Baltimore, Maryland, in August 1974 and July 1975. Both checks were returned to the District Disbursing Office because the addresses on the checks showed the wrong ZIP code. In January 1976 we contacted the company and asked officials if its records showed any unpaid invoices sent to the District. A company official said that two invoices were unpaid and the addresses shown on the invoices were correct. After we gave the District Disbursing Office the vendor's correct ZIP code, it issued replacement checks to the company to pay the two invoices.

After we brought the matter to its attention in January 1976, the District Disbursing Office began notifying the District Accounting Office of returned checks and requesting instructions for their disposition. As a result, the Disbursing Office received information enabling it to deliver 79 percent (82 of 104) of the checks returned during late January 1976.

through early March 1976. For example, a returned check for \$5,447 was mailed with the city, state, and ZIP code missing from the address. According to a District employee, the check was remailed within a day after receiving the complete address.

Internal controls needed to prevent checks from being held by agencies

In August and September 1975, District agencies were holding about 3,100 issued checks, amounting to about \$226,600, that were not delivered to payees, of which about 2,900 were not adequately safeguarded. The agencies were taking only minimal steps to deliver the checks to payees or return them to the District Disbursing Office. Some of the checks were held for as long as 12 months. As a result, payees were not paid promptly, and the risk of loss or unauthorized use of the checks was increased. We believe that District agencies could have taken steps to deliver many of these checks more promptly or return them to the District Disbursing Office for deposit in the U.S. Treasury.

The U.S. Treasury requires agents designated to receive and deliver checks to return any checks which should not or cannot be delivered within 5 days of receipt. The District Accounting Manual states that undeliverable checks should be returned to the Disbursing Office within 48 hours after receipt. The Treasury Fiscal Requirements Manual requires agents to hold checks in a combination lock safe or locked fireproofed cabinet until distributed or returned to the issuing disbursing office. At the time of our review, however, the District had not incorporated these procedures into its manual. District employees, therefore, did not have written instructions for safeguarding checks on hand.

We visited 6 District agencies to determine whether checks were being held there longer than 48 hours, and observed that this was occurring. The following schedule shows the number of checks we observed at the agencies, the number of months they were held, and the estimated amounts.

<u>District agency</u>	<u>Checks held</u>	<u>Months held</u>	<u>Estimated amounts</u>
Redevelopment Land Agency	2	9	\$120,000
D.C. Public Schools	45	8 to 10	675
Federal City College Youth Opportunity Service	117	10	2,900
Minimum Wage and Industrial Safety Board	200	(a)	(b)
Department of Human Resources	2,716	1 to 12	103,000
	<u>4</u>	11	<u>12</u>
	<u>3,084</u>		<u>\$226,587</u>

a/Less than one month.

b/Could not be determined.

Also, we noted that the Youth Opportunity Service held 200 checks on a desk in a public office. The Minimum Wage and Industrial Safety Board stored 2,716 checks in an unlocked desk and a cabinet. The other four District agencies kept their checks under adequate safeguards.

CONCLUSIONS AND RECOMMENDATIONS

The District should act promptly to deliver issued checks on hand to payees or, if undeliverable, deposit them in the U.S. Treasury. We recommend, therefore, that you direct the District agency heads to return all undeliverable checks to the District Disbursing Officer within 48 hours of receipt, as required by the District Accounting Manual, and advise the Accounting Officer accordingly. We also recommend that you instruct District agency heads to place checks on hand in a combination lock safe or locked fireproofed cabinet, with access by authorized employees only. Instructions for safeguarding checks should be incorporated into the District Accounting Manual.

We recommend further that the District Disbursing Officer periodically review lists of outstanding checks to identify agencies which may be holding large numbers of checks.

Agency comments

District officials generally agreed with our recommendations and advised us that corrective action will be taken.

IMPROVEMENTS NEEDED IN ACCOUNTING
FOR UNDELIVERABLE CHECKS

District accounting records showed that about 12,000 undeliverable checks, amounting to about \$1.4 million, were deposited in the U.S. Treasury from January 1955 to September 1975. The District Accounting Office incorrectly adjusted its accounting records for undeliverable checks by improperly returning funds to the unobligated classification and by not removing liabilities from its records when checks were reissued. Controls to prevent duplicate payments were, therefore, weakened, and the potential exists for violating the Anti-Deficiency Act (31 U.S.C. (65 (a))). This act prohibits Federal agencies and the District from obligating or spending funds in excess of amounts available under any appropriation.

Funds were improperly restored
to appropriations

The District Accounting Manual (Title 5, chs. 1 and 2) provides that transactions for undeliverable checks be recorded when the proceeds are still due and payable. These provisions require that adjustments for the amounts of returned checks be made in the District's budgetary accounts. The adjustments return the funds to the unobligated classification; when the checks are reissued, new funds are obligated. Such adjustments make available appropriated funds that should have remained obligated to pay an existing liability. If this practice continues and funds needed to pay existing liabilities are obligated to pay other liabilities, a violation of the Anti-Deficiency Act could result.

We believe the obligations should remain on the records to fund the liability to the payee; new funds should not be obligated when the check is reissued. This will prevent the overstatement of the District's unobligated balance by the amount of the returned checks and thus avoid possible obligation of funds in excess of amounts appropriated.

Undeliverable check liability overstated

The District Accounting Office did not follow required procedures for removing liabilities from accounting records or indicate on supporting documentation when proceeds of undeliverable checks were reissued to payees or their estates. As a result, the general and subsidiary (alphabetical listing) ledger accounts, which summarize the District's liability for undeliverable checks, were erroneous.

The Treasury Fiscal Requirements Manual (4 TFRM 7030) states that amounts recorded as obligations must be supported by documents, such as Standard Form 1185, Schedule of Undeliverable Checks for Credit to Government Accounts. GAO's Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 24.3) further requires agencies, when paying claims for undeliverable checks, to mark vouchers and supporting documents to prevent their being processed for payment a second time.

Although procedures in the District Accounting Manual (Title 7, ch. 18) require the Accounting Office to keep an accurate record of the District's liability for undeliverable checks, we noted that Accounting Office personnel were not adjusting the alphabetical listing when checks were reissued to payees. Additionally, District procedures for reissuing undeliverable checks did not require the Accounting Office to show on supporting documents that payment had been made.

We examined selected records of checks deposited as undeliverable during the 8 years ended in September 1975 and identified about 190 checks that were reissued to payees or their estates. About 86 percent (163 of 190) of these checks were not removed from the alphabetical listing, resulting in paid accounts payable being shown as unpaid.

By failing to mark obligating documents or remove entries from the alphabetical listing when undeliverable checks were reissued, the District increased the potential of making duplicate payments. For example, a payee claimed and received payment for a \$66.41 check previously deposited as undeliverable. The liability was not removed from the accounting records, and the obligating document was not marked to show that the check was reissued. About 2 years later, the payee again requested and received payment for this check because

the District's accounts payable records showed the liability as being unpaid.

CONCLUSIONS AND RECOMMENDATIONS

We believe the District's accounting procedures and practices for undeliverable checks need changing to comply with applicable Treasury and GAO requirements. We recommend, therefore, that you direct the District Accounting Officer to:

- Revise the District Accounting Manual to delete the requirements for deobligating funds for undeliverable checks. An exception should be made when the obligation is determined to be invalid.
- Incorporate into the District Accounting Manual a requirement to indicate on documents supporting the re-issuance of undeliverable checks that the District no longer has a liability to make these payments.
- Require accounting office personnel to adjust the alphabetical listing (subsidiary ledger accounts) for undeliverable checks when payees are paid.

Agency comments

District officials generally agreed with our recommendations and advised us that corrective actions had been taken or were being taken.

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As you know, section 736 (b)(3) of the District of Columbia Self-Government and Governmental Reorganization Act requires you within 90 days after receipt of an audit report from the Comptroller General to state in writing to the City Council, with a copy to the Congress, what has been done to comply with the recommendations in the report.

Section 442 (a)(5) of the same act requires you to include in the District's annual budget a statement on the status of efforts to comply with reports of the Comptroller General.

We are sending copies of this report to the Senate and House Committees on Appropriations, Government Operations, and District of Columbia; the Director, Office of Management

and Budget; the Council of the District of Columbia; and the District's Directors, Office of Budget and Management Systems, Department of Finance and Revenue, Department of General Services, and Department of Corrections.

We appreciate the courtesies and cooperation extended our representatives during this review. We would appreciate your comments and advice on any actions taken or planned on the matters discussed in this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. L. Scantlebury", with a long horizontal flourish extending to the right.

D. L. Scantlebury
Director