

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

PERFORMANCE AUDIT

OF THE CITY OF PHILADELPHIA

BAD CHECKS POLICIES AND PROCEDURES

DECEMBER 2013



City Controller
ALAN BUTKOVITZ



CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller

GERALD V. MICCIULLA
Deputy City Controller

December 5, 2013

Mr. Rob Dubow, Director of Finance
Office of the Director of Finance
Municipal Services Building, Room 1330
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

The Office of the Controller commissioned and oversaw a performance audit, conducted by the accounting firm of Shechtman Marks Devor PC, of the City of Philadelphia's bad checks policies and procedures. The purpose of this audit was to determine whether the City of Philadelphia's policies and procedures to prevent and collect bad checks are effective and efficient. This review was conducted pursuant to Section 6-400 (d) of the Home Rule Charter, and the results of the independent accountant's audit are summarized in the executive summary attached to this report.

We discussed the findings and recommendations with you and your staff at an exit conference and included the written response of the Revenue Commissioner to the independent accountant's findings in Section II of the report. We believe the recommendations in the attached report, if implemented, will improve the collection and prevention of bank return items.

We would like to express our thanks to you and your staff, as well as the staffs of the Department of Revenue and the Office of the City Treasurer, for the courtesy and cooperation displayed during the conduct of our work.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Alan Butkovitz", written over a horizontal line.

ALAN BUTKOVITZ
City Controller

cc: Honorable Michael A. Nutter, Mayor
Honorable Darrell L. Clarke, President
and Honorable Members of City Council
Members of the Mayor's Cabinet
Clarena I.W. Tolson, Revenue Commissioner
Nancy Winkler, City Treasurer



PERFORMANCE AUDIT OF THE CITY OF PHILADELPHIA BAD CHECKS POLICIES AND PROCEDURES EXECUTIVE SUMMARY

Why The Controller's Office Conducted the Examination

The Controller's Office engaged Shechtman Marks Devor PC (SMD) to conduct a performance audit of the City of Philadelphia's bad checks policies and procedures. The objective of this audit was to review current procedures for the prevention and collection of bad checks to determine whether they are effective and efficient.

What The Controller's Office Found

Opportunities exist to improve the City of Philadelphia's policies and procedures to prevent and collect on thousands of bad checks collected from individuals for payment of taxes, licenses, fees, and permits. From July 1, 2009 through June 30, 2012, the bank returned some 13,000 checks totaling \$14 million. A random sample of over 80 checks suggests that almost half remain uncollected. Some of the more significant observations requiring management's attention include:

- The city does not fully utilize the Bank Return Item (BRI) Unit in an effective effort to prevent and collect bad checks. Rather than using the unit as a powerful tool to quickly identify repeat offenders and provide valuable analysis of higher bad check occurrences for certain fees or tax types, it simply uses the unit to prepare and send out dunning collection letters.
- The BRI Unit does not reconcile the total number of bad checks processed by the city to the number of checks received from the bank, increasing the probability that the taxpayer or customer will not be re-billed.
- City departments and agencies accept checks without sufficient information to identify the payer. If the bank returns the check for nonpayment, the lack of information often makes it difficult and very time consuming to collect the payment.
- No consequences occur for individuals who repeatedly submit bad checks.

What The Controller's Office Recommends

To improve current procedures over bank return items, the city should: (1) use the BRI Unit to analyze bank return data to identify areas needing attention and procedural changes; (2) require that the BRI Unit begin reconciling the number of checks returned by the bank against the total being processed by all city agencies; (3) accept only checks with appropriate identification information on them; and (4) make repeat offenders pay with a certified check, money order, credit card or electronic fund transfer. These and other recommendations are more fully described in the report.

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SECTION I

INDEPENDENT ACCOUNTANT'S REPORT

**Performance Audit of the
City of Philadelphia**

Bad Checks Policies and Procedures

Fiscal Years Ended
June 30, 2012, 2011 and 2010

Performance Audit of the Bad Checks Policies and Procedures City of Philadelphia

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Alan Butkovitz
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679

Dear Mr. Butkovitz:

This report contains the results of the performance audit of the City of Philadelphia's Bad Checks Policies and Procedures. The report addresses current city procedures and policies for handling bad checks (bank return items) and highlights areas that could improve related cash management. The audit covered the period from July 1, 2009 to June 30, 2012.

This audit was conducted as a result of a request for proposals by the City of Philadelphia Office of the Controller. We conducted this performance audit in accordance with generally accepted *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The scope of this audit was limited to the areas as outlined in this executive summary as agreed upon with the Office of the Controller.

Our audit found that current city procedures and policies in place to prevent and collect bad checks could be improved to decrease the number of such checks returned by the bank for insufficient funds and increase the ability to collect replacement checks. We offer seven recommendations to address identified findings and strengthen the City of Philadelphia's policies and procedures over returned checks. We suggest that these recommendations be implemented immediately.

This assessment of the City of Philadelphia's bad check policies and procedures could not have been completed without the cooperation and support of the Office of the Controller, Treasurer's Office, Revenue Department and the Bank Return Items Unit.

Thank you for allowing Shechtman Marks Devor PC the opportunity to work with the Office of the Controller on this important engagement.



June 2013

**Performance Audit of the Bad Checks Policies and Procedures
City of Philadelphia
June 2013**

Background, Project Objectives, Scope and Audit Methodology

Background

Shechtman Marks Devor, PC ("SMD") has been engaged to conduct a performance audit of the Revenue Department's Bad Checks Policies and Procedures. During the performance audit period July 1, 2009 through June 30, 2012, there were approximately 13,000 bank items returned totaling approximately \$14,000,000 processed by the Bank Return Items Unit. The city incurs bank fees of approximately \$6 for each bad check returned by the bank. The steps below briefly describe our understanding of the procedures applied and the sequence of such procedures to bad checks received by the city:

- The City Treasurer's Office receives bad checks from the bank and forwards them to the Water Revenue Bureau ("Water Revenue"). We learned that subsequent to our audit period Water Revenue began to receive the bad checks directly from the bank.
- For the period of the audit, Water Revenue retained all bad checks returned for Water Revenue payments from the package of bad checks received from the City Treasurer's Office and forwarded the remainder of the bad checks to the Revenue Department's Bank Return Items Unit ("BRI").
- BRI personnel enter all bad checks received into the BRI system and each item is assigned a BRI number, excluding the bad checks separately processed by Water Revenue.
- BRI generates a Demand for Payment ("DFP") letter for each bad check they process.
- DFP letters, excluding the self assessed taxes and real estate taxes ("taxes"), are mailed to the taxpayers by the BRI unit.
- The DFP letters for taxes are forwarded to the designated revenue department accountant who then reverses the payments in the Taxpayer Information Processing System¹ ("TIPS"). These letters are not mailed to the taxpayer.
- After reversing the payments in TIPS and entering a \$20 charge for the bad check, taxpayers will automatically receive a new bill based on the Revenue Department's billing cycles. Each tax type is subsequently billed approximately every 50 days.
- BRI updates their system for any replacement checks received by BRI personnel.
- After a waiting period of approximately 30 days from the mailing date of the DFP letter (excluding taxes) bad checks with no replacement checks are coded as charge off² in the BRI system.
- Once a bad check is designated a charge off in the BRI system, the bad check and taxpayer information is forwarded to a designated revenue accountant. After the designated revenue accountant has adjusted the FAMIS general ledger software, the bad checks are returned to BRI. Bad checks (excluding taxes) are forwarded to the respective departments for additional collection attempts.

¹ TIPS is the City of Philadelphia's consolidated accounting system that maintains taxpayer information.

² The charge off is the last data entry in the BRI system for non-payment before any involvement of legal or collection agencies.

**Performance Audit of the Bad Checks Policies and Procedures
City of Philadelphia
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Background, Project Objectives, Scope and Audit Methodology (continued)

Project Objectives and Scope

Our audit objective was to determine the effectiveness and efficiency of the City of Philadelphia's policies and procedures to prevent and collect on bad checks collected from taxpayers and customers receiving city services. Our project scope included the following:

- A review of the Revenue Department's procedures for processing returned checks in accordance with the procedures manual dated May 1, 2004 (superseded July 15, 2012).
- A review of procedures for transferring returned checks from BRI to other city departments. Certain city departments perform additional procedures attempting collection for taxes.
- A review of procedures currently performed by other departments for collection of returned checks.
- A review of BRI's procedures included, but was not limited to, entrance into the TIPS System and safekeeping of the returned check documents.

To accomplish our audit objectives, we examined procedures and records for the period July 1, 2009 through June 30, 2012 unless otherwise stated in our report. We conducted our work from August 2012 to June 2013 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.

Audit Methodology

In order to conduct the detail review of the city's bad checks policies and procedures, Shechtman Marks Devor PC (SMD) gathered information from a variety of sources using several approaches and methodologies, including:

- **Performance Audit Standards**

In the execution of the performance audit, SMD followed generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States "Yellow Book" and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

- **Interviews with Key Management and Staff**

SMD interviewed key management and staff in BRI to gain an understanding of the operational policies and procedures surrounding the prevention and collection of bad checks. These interviews permitted a top-down understanding of the various elements involved in the flow and disposition of bad checks. SMD also conversed with other individuals within the Revenue Department and the Treasurer's Office for further clarification on some procedures.

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Background, Project Scope and Methodology (continued)

Audit Methodology (continued)

- **Review of the Bad Check Mechanisms in Use**

SMD identified the mechanisms currently in use to handle the receipt of returned checks in order to offer recommendations that would provide opportunities to improve prevention and collection of bad checks.

- **Observation and Walk-Throughs**

After obtaining an understanding of the key policies and procedures in place, SMD observed the execution of such by "walking-through" the systems in order to corroborate our understanding through inquiry with what is actually taking place and to identify areas where there may be opportunities for improvements in preventing and collecting bad checks.

- **Sample Selection and Testing**

We sampled 83 bad checks from the population of bad checks received and processed by Bank Return Item Unit during the period July 1, 2009 through June 30, 2012. For the selected random sample provided by the Controller's Office personnel (see page 6). SMD performed the following audit procedures for each item selected:

- Reviewed the handling processes for each bad check.
- Observed the bad check was properly entered into the BRI software.
- Observed the original payment was properly reversed for self-assessed and real estate taxes in TIPS.
- Reviewed subsequent payments were properly recorded in TIPS.
- Reviewed the procedures performed by other departments, outside BRI, for collections.

**Performance Audit of the Bad Checks Policies and Procedures
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Constraints and Limitations

Constraints and limitations present special factors that should be considered in the interpretation of audit results. Key considerations include the following:

- The controls-review centered on selected controls related to return of bad checks; SMD did not perform a detailed controls review of all areas of the Revenue Department or other departments of the city.
- SMD performed direct observations and walk-throughs, and collected data, records, and documents from city staff. While these sources of information were reviewed for reasonableness and checked against other financial documents, it was not within the scope of our audit to validate all secondary sources of information.
- SMD's review covered the Revenue Department's BRI Unit processes of recording bad checks.
- SMD's review did not include testing procedures for bad checks returned for Water Revenue payments.

Other constraints and limitations may be noted throughout the report as necessary.

**Performance Audit of the Bad Checks Policies and Procedures
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Summary of Audit Procedures and Results

SMD with the assistance of the Controller's office selected a random sample of 83 items from the bad check population for the period July 1, 2009 through June 30, 2012.

The following table represents the department the bad check originated and the reasons for the bad checks in the sample:

Department	Amount	Bank Account Closed	Insufficient Funds	Stopped Payment	Other	Total Checks
Revenue (Taxes)	\$ 194,093	10	36	12	2	60
Department of Licenses and Inspections	6,721	5	7	1	1	14
Department of Records	350	1	1	-	-	2
Department of Health	255	-	-	-	1	1
Department of Streets	312	1	-	-	-	1
Office of Finance	100	-	1	1	-	2
Unidentified	486	-	3	-	-	3
TOTAL	\$202,317	17	48	14	4	83

Of the 83 bad checks sampled, almost half remained uncollected. The breakdown of the 40 bad checks that are still owed to the city are as follows:

Description	Amount	Total Checks
Real Estate Taxes	\$ 8,756	15
Business Privilege Tax	1,670	5
Net Profits Tax	188	3
Quarterly Wage Tax	1,518	1
Use and Occupancy Tax	1,951	1
Department of Licenses and Inspections	4,489	10
Department of Records	350	2
Department of Streets	312	1
Unidentified	446	2
TOTAL	\$19,680	40

The total population of bad checks processed by the Bank Return Unit during the audit period of July 1, 2009 through June 30, 2012 consisted of approximately 13,000 bad checks totaling approximately \$14,000,000. Of that amount, 7,000 bad checks totaling approximately \$11,000,000 were payments for taxes.

**Performance Audit of the Bad Checks Policies and Procedures
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Findings and Recommendations

Finding No. 1

The BRI system is underutilized. It is primarily used to prepare Demand For Payment (“DFP”) letters that are mailed to the taxpayer as an attempt to collect. However, the BRI system can be a powerful tool that can quickly identify repeat offenders as well as provide valuable analysis of higher bad check occurrences for certain fees or tax types of the city if it was updated accurately.

Currently, the BRI system is only updated for replacement checks if they were received directly by the BRI Unit. BRI generates a DFP for each bad check they process. The DFP letters, excluding the self assessed taxes and real estate taxes (“taxes”), are mailed to the taxpayers by the BRI unit.³ After a waiting period of approximately 30 days from the mailing date of the DFP letter (excluding taxes), bad checks with no replacement checks are coded as charge off in the BRI system and the information on the status of the bad checks are forwarded to the applicable department. No information on the status of the bad checks are communicated back to BRI, therefore BRI is not able to prepare an accurate report that summarizes and identifies bad checks that may have been recovered by receipt of a replacement check. This not only decreases the likelihood of subsequent collection, but the BRI database could continue to include bad checks that may have been paid with a replacement check by the taxpayer.

Recommendation 1.1

The BRI system should be reviewed for other uses such as determining the total amount of bad checks not collected. The city should oversee the sharing of information related to bad checks and follow up efforts. Ideally, the BRI system not only would allow contemporaneous lists to be prepared, it would also allow analysis and provide statistical information such as:

- Departments that have higher instances of bad check returns and/or related amounts.
- Historical percentages of bad checks subsequently paid or remaining unpaid.
- Common types of payments that have higher bad check rates.

Such information may allow the city to identify what areas need attention and possible procedure changes.

Recommendation No. 1.2

We recommend BRI and the various departments communicate to each other if a replacement check is received. This would allow BRI to perform the following:

- More easily identify repeat offenders, and
- Provide accurate reports of bad checks to the various departments. These reports would allow the departments to determine which balances need additional follow up, which should be coded as final or non-recoverable, and which should be forwarded to litigation or to collections. The reports would also assist departments in determining if the rights associated with the license, permit, etc. should be suspended or revoked due to lack of payment.

³ DFP letters for taxes are forwarded to the applicable revenue accountant who reverses the payment in TIPS. TIPS will automatically generate a bill for the unpaid tax within the next billing cycle.

**Performance Audit of the Bad Checks Policies and Procedures
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Findings and Recommendations (continued)

Finding No. 2

The current BRI database contains a large number of bad checks coded as charge off for which the final disposition is not determinable. The coding of bad checks as a charge off is systematic after a certain time period and is not related to the final disposition of the bad check. This coding is the last data entry in the BRI system and is entered before any involvement of legal or collection agencies and often without any feedback from other departments.

Recommendation 2.1

We recommend expanding the disposition codes to allow an improved mechanism to track bad checks. Additional disposition codes in the BRI system could include, 1) transferred to city department, 2) forwarded to litigation, and 3) deemed uncollectible by city department. These additional disposition codes would assist personnel in summarizing the status of outstanding bad checks and the ability to subsequently collect.

Finding No. 3

During our procedures, we learned there are currently no reconciliations performed for the total number of bad checks processed by the city to the number of checks received from the bank. The lack of a proper reconciliation increases the probability of a bad check not being re-billed to the taxpayer or customer and therefore ultimately is not collected by the city. The lack of proper reconciliations also increases the chances of accounting records being incorrect or incomplete.

Recommendation No. 3.1

We recommend procedures be implemented documenting the number of bad checks received from the bank to the number of bad checks processed by Water Revenue and BRI. We recommend an individual currently associated with cash management or bank reconciliations be assigned these new procedures. The implementation of a reconciliation procedure for bad checks should decrease the chance a bad check is not re-billed and improve general ledger recordkeeping.

Finding No. 4

Currently, the city has no method to identify that the payer is a repeat offender. Since the BRI system maintains check issuer information and information related to each bad check returned, the city can utilize the system to identify repeat offenders.

Recommendation No. 4.1

Cashiers or processors of the payments should have available to them information that would allow identification of repeat offenders. The BRI system can generate reports that summarize bad checks for selected check issuers. These reports should be shared with the personnel processing the payments. Ideally, the system could automatically identify a repeat offender as the name and address are entered into the system.

**Performance Audit of the Bad Checks Policies and Procedures
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Findings and Recommendations (continued)

Finding No. 5

During our review of bad checks, we learned that once a bad check is reversed in the TIPS system the re-billing of the taxes due could take up to fifty days based upon a re-billing cycle. If, for example, a bad check is received for a tax type that was billed the previous day it would be approximately 50 business days until the taxpayer is notified by the automatic re-billing. In addition, even though BRI prints and forwards DFP letters to the designated revenue department accountant, the letters are not mailed out. The city only relies on the re-billing cycle of taxes and files the letter away.

Recommendation 5.1

We recommend the city review procedures that may increase the timeliness of re-billings such as:

- Immediately generate re-billings for accounts with outstanding balances due to a bad check. These re-billings could be based on a predetermined dollar threshold.
- Mailing DFP letters for self-assessed and real estate taxes after reversal in TIPS.

Finding No. 6

We noted the city accepts checks without certain necessary information to identify the payer should the check be returned. During our testing, we noted the following:

- 1) Some bad checks had no identifying information such as an account number, name or address.
- 2) The city accepts starter checks⁴ as payment.
- 3) There is no consistency with check endorsements within the various departments.

Without this information, the BRI Unit is not able to identify the taxpayer or even the type of tax or fee that the check was paying to begin the process of requesting a replacement check. These types of returned checks are coded to "Miscellaneous Department" and as a result, are not investigated any further.

Recommendation 6.1

The city should only accept checks with an account number, name and address listed on it to identify the taxpayer.

Recommendation No. 6.2

We recommend that if a starter check is used as payment, then proof of identification should be requested and noted on the check such as a driver's license number as well as the taxpayer's name and address.

⁴ Starter checks are a temporary supply of checks a bank provides the account owner when opening a bank account. These checks are not preprinted with a name or address of the account owner.

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Findings and Recommendations (continued)

Recommendation No. 6.3

We recommend the city standardize check endorsements used within the various departments. The endorsement should include items such as, date and time, cashier information, transaction code, and the name of the department validating the check.

Finding No. 7

We noted repeat offenders can make payments with regular checks.

Recommendation No. 7.1

We recommend that checks not be accepted for repeat offenders; instead, they should be required to pay with a positive method such as certified check, money order, credit card or electronic fund transfers ("EFT").

**Performance Audit of the Bad Checks Policies and Procedures
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Department of Licenses and Inspections – Detail of Audit Sample

Appendix A-1

Our sample included 14 bad checks for the Department of Licenses and Inspections ("L&I"). After noting four replacement checks were received by BRI the remaining 10 bad checks were identified as charged off in the BRI system. We requested L&I to provide support for procedures applied to the 10 remaining bad checks returned by the bank.

Results of testing and communications with staff:

- Representative acknowledged receiving only four of the ten bad checks.
- The four items noted as received were listed in an excel sheet list.
 - This excel list is utilized to help identify repeat offenders.
 - There is no follow up of this excel list to BRI.
- There was no documentation available for review by SMD to support procedures performed to potentially collect a replacement check.
- We were informed that the work for which a license or permit is obtained is usually completed by the issuer before the bad check is received by L&I. As a result, enforcement action by the department is diminished.

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Office of the Director of Finance – Detail of Audit Sample

Appendix A-2

Our sample required the Office of the Director of Finance, (“Finance Office”) to assist in identifying procedures applied to two items for which a replacement check was not received by the BRI Unit. Both items were coded as a charge off and forwarded to the Finance Office by the BRI Unit. The Finance Office received replacement checks for both items.

Results of testing and communications with staff:

- Representative provided supporting documents of subsequent payment for both returned checks.
- Representative communicated the following procedures are performed for bad checks received from the BRI Unit:
 - The prior payment is reversed in eTIMS, Ticket Management.⁵
 - The NSF fee is added to the account.
 - A letter is generated requesting payment of the returned check and NSF fees.
 - If no payment is received, the fine is increased to the maximum penalty and a claim is filed in court.
 - It was communicated that the ability to sue the issuer usually results in collection of the bad check item.
 - When payment is received they report collections to the Revenue Department, but not the individual outcome of each BRI item.

⁵ eTIMS is a database that the Office of Administrative Review Code Unit (within city’s Finance Office) uses to process and track notices, and revenue collection efforts for burglar alarm registration fees, excess false alarm fees and city code violations.

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Department of Records – Detail of Audit Sample

Appendix A-3

Our sample required the Department of Records ("Records") to assist in identifying procedures applied to two items for which replacement checks were not received by the BRI Unit. Both items were coded as a charge off and forwarded to Records by the BRI Unit.

Results of testing and communications with staff:

- Representative communicated they had no record of receiving the two items requested.
- The representative did communicate their procedures on bad checks they receive.
 - The check is entered into a list for tracking purposes.
 - If information is available they will call the issuer three times.
 - After three unsuccessful phone calls, a letter requesting payment and noting their right to perform business in the city could be suspended. This is sent along with a copy of the Demand for Payment letter produced by the BRI Unit.
 - Representative noted they defer to the Revenue Department to enforce the suspension of business.
- When the bad checks are received from the BRI Unit, we were informed that there is no listing indentifying the checks in the package.

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Department of Health – Detail of Audit Sample

Appendix A-4

Our sample included one bad check for the Department of Health. A replacement check was received by BRI. As a result we had no interaction with this department.

**Performance Audit of the Bad Checks Policies and Procedures
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Department of Streets – Detail of Audit Sample

Appendix A-5

Our sample requested the Department of Streets (“Streets”) to assist in identifying procedures applied to one item for which a replacement check was not received by the BRI Unit. The item was coded as a charge off and forwarded to Streets by the BRI Unit.

Results of testing and communications with staff:

- Representative communicated they did not have the item requested.
- Representative noted they are currently working with the BRI Unit to develop a reconciliation process for bad checks. It was represented that reconciliations were not performed during our audit period.
- Representative subsequently provided a copy of a list of BRI items for November 2012.

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Unidentified (“Miscellaneous”) – Detail of Audit Sample

Appendix A-6

Our sample included three checks coded to “Miscellaneous” by BRI. For one check a replacement check was received and posted by BRI. For the remaining two checks not enough identifiable information could be obtained that would allow BRI to forward the check to another department or for reversing in TIPS.

Results of testing and communications with staff:

- Unidentifiable checks are posted to the “Miscellaneous” classification.
- These checks are separately filed by BRI.

SECTION II

MANAGEMENT'S RESPONSE



CITY OF PHILADELPHIA

Clarena I.W. Tolson
Commissioner
Department of Revenue
Municipal Services Building
1401 John F. Kennedy Boulevard
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215-686-6400 (Office)
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December 5, 2013

The Honorable Alan Butkovitz
City Controller
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102

Dear Mr. Butkovitz,

The Department of Revenue appreciates the thoroughness and professionalism Shechtman Marks Devor PC used in performing their audit. Several of the recommendations, paired with the actions we are currently taking, will certainly have a positive impact on bank return items we receive. The audit covered the period of July 1, 2009 through June 30, 2012 in which we collected nearly \$7 billion in tax revenue through checks. Devor identified approximately 13,000 returned checks which represent less than ½ of one percent of the total number of checks received during that period accounting for approximately \$14 million.

The following are the Revenue Department's responses to your specific findings.

Finding 1 - BRI System is Underutilized

Response: Recognizing the BRI system could be used more effectively, the department has improved communications city wide by electronically providing BRIs to other Departments. This change is producing results as seen by Licenses and Inspections (L&I) recovering over \$163,000.00 with the assistance of the Law Department with other offenders entering into payment agreements. In addition, the department will request that agencies inform Revenue of payments that are recovered so the BRI system can be updated and accurate status reports can be generated.

Finding 2 – The current BRI system lacks final disposition of bad checks

Response: Revenue agrees additional disposition codes will provide more informative reports to better assist in subsequent collections and work on integrating this change into our BRI system. However, our ability to maintain a 'final disposition' status is dependent upon receiving accurate information from departments. As stated above, we will request that outside agencies provide

final disposition status. In addition, we will provide reports on the status of all 'bad checks' to departments on a regular basis.

Finding 3 – Lack of Reconciliations

Response: The Department will develop a reconciliation process to document and verify the number of return items received from the bank.

Finding 4 –Method to Identify Repeat Offenders Needed

Response: In April of 2013 Revenue began to provide listings of repeat offenders to the law department and will begin providing these lists to all departments. L&I is in the process of using this information to develop a flag that can be placed in their system to automatically provide a 'Do Not Accept Checks' alert for the designated contractors identified as repeat offenders. We are also examining what changes we can make to our internal Revenue systems, however, the majority of checks are received by mail and not presented in person.

Finding 5 – Delays in Re-billing

Response: Understanding the current process may cause delays, we are working with our Information Technology group to modify current systems so that the recording of a bank return item for self-assessed or real estate taxes automatically generates the creation of a delinquent bill. This bill will include language similar to that of the Demand for Payment notice and indicate the bill was generated as the result of a bad check.

Finding 6 - Lack of Identifying information

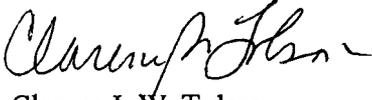
Response: In April of 2013 the department implemented a process requiring all taxpayers that present in person to provide valid identification if paying with a starter check or a check lacking personal data. In addition, L&I intends to implement a policy where they will no longer accept starter checks and will begin to only accept credit card payments or other guaranteed payment instruments as method of payment for all in person transactions.

Finding 7 - Repeat offenders can make payments with regular checks

Response: The department continues to examine strategies to target repeat offenders. Some processes, such as those within L&I, may be modified so as to 'flag' repeat offenders and require alternate payment methods. We are also examining whether it is possible and cost effective to implement reviews at our cashiering windows without creating delays for all customers. In addition, any such changes would not impact those checks received by mail.

Thank you for the opportunity to respond to the performance audit draft regarding bank return items.

Sincerely,

A handwritten signature in black ink, appearing to read "Clarena I. W. Tolson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Clarena I. W. Tolson,
Revenue Commissioner

Cc: Rob Dubow, Director of Finance
Frank Breslin, Deputy Revenue Commissioner
Michael Zaccagni, Deputy Revenue Commissioner