

March 13, 2009

Audit Number 09004

*Robert E. Clift*

## *Payment Receipts Safeguards Can Be Improved While Achieving Significant Cost Savings*

### SUMMARY

The purpose of this performance audit was to evaluate effectiveness of the Department's over-the-counter (OTC) payment receipting process as administered by the Division of Administration (DOA). We determined:

- The average cost incurred by the Division of Administration to process an electronic payment is \$3.41 less than the cost to process an OTC payment;
- Some OTC payments are not uniquely identified when received, which increases risk of loss and prevents reliable performance measurement.

We recommend the Division of Administration:

- Promote increased use of electronic payments;
- Consider outsourcing selected OTC payment receipt processing functions to the Department of Revenue;
- Require a periodic reconciliation of all OTC payment receipts with bank deposit information;
- Require OTC payments received in district offices be deposited locally;
- Delegate to the DOA Director, the responsibility for effective implementation of all payment receipt processing procedures; and
- Develop measures to monitor the performance of the cash receipt process.

### SCOPE

The objective of this audit was to evaluate the effectiveness of the Department's over-the-counter (OTC) payment receipt process as administered by the Division of Administration.

### BACKGROUND

The Division of Administration (DOA) provides incoming payment processing services for most of the activities provided by the Department, as well as those provided to the Offices of Financial and Insurance Regulation. These payments are generally associated with fees and penalties paid directly by citizens benefiting from these activities. These activities range from licensing services provided by the Office of Financial Regulation to penalty payments associated with fines issued by the Division of Workers' Compensation. As shown in Exhibit 1, DOA provided incoming payment processing services for 484,320 of the 499,153 (97%) total payments received by the Department in FY 07-08.<sup>1</sup>

Exhibit 1 also identifies the other Divisions that are responsible for processing payment receipts. Each of these Divisions is separately responsible for recording and depositing payments received in

<sup>1</sup>In FY 2007-08, \$1.32 billion of the \$1.5 billion in payments collected were processed by the Division of Administration.

## Exhibit 1:

**The Division of Administration is responsible for processing most payment receipts.**

Division	Over the Counter Count	Over the Counter Dollar Value	Electronic Count	Electronic Dollar Value	FY 07/08 OTC & Electronic Count	FY 07/08 Totals
<b>Administration</b>	<b>180,621</b>	<b>\$666,890,111</b>	<b>303,699</b>	<b>\$654,029,029</b>	<b>484,320</b>	<b>\$1,320,919,140</b>
Risk Management*	702	\$33,088,091	89	\$3,978,649	791	\$37,066,740
-BSF FEMA Refunds Risk Mgmt	3	\$866,458	0	0	3	\$866,458
Rehab & Liquidation	3,886	\$29,378,476	395	\$111,602,371	4,281	\$140,980,847
SFM - Fire College	4,381	\$279,098	5,377	\$335,919	9,758	\$615,017
<b>Receipt Totals</b>	<b>189,593</b>	<b>\$730,502,234</b>	<b>309,560</b>	<b>\$769,945,968</b>	<b>499,153</b>	<b>\$1,500,448,202</b>

Source; Division of Administration, Division of Risk Management and Division of Rehabilitation and Liquidation

conjunction with their activities, and include the Division of State Fire Marshal (Fire College, Ocala), Division of Risk Management, and Division of Rehabilitation and Liquidation.<sup>2</sup>

Incoming payments processed by DOA can be classified as over-the-counter (OTC) or electronic. Over-the-counter includes cash, paper checks, money orders, or cashier's checks mailed or hand delivered to the Department. Electronic include payments via credit card, automated clearing house (ACH), or wire transfers received, processed and deposited electronically.

In FY 07-08, DOA processed 180,621 OTC payments and 303,699 electronic payments. The cost incurred by DOA to process these payments was \$812,145; with 71%, or \$575,993 of these costs expended on processing OTC payments.

Over-the-counter processing includes manually receiving, recording, and depositing of payments. As shown in Exhibit 2, the OTC payment process begins when payments are mailed or hand-delivered to the Department. Mailed payments may be initially received by DOA

or the applicable business unit. Mailed payments are generally delivered to business units to avoid delays associated with application or service processing. In most instances, payments initially received by business units are transferred via USPS or interoffice mail to DOA after information to perform the business unit activity is captured.

Payments sent directly by businesses and individuals to DOA are received by the Division's Mail Services section. Once received, the Mail Services section is responsible for separating mail with payments, recording the number of payments received, and transferring mail with payments to the DOA Receipts Section.

Upon transfer, the DOA Receipts Section sorts incoming payments by appropriate payment fund type (i.e., Workers' Compensation exemption application). Batches of sorted payments are then manually input into one of two receipting systems maintained by the Department; CODA and RCP.<sup>3</sup>

<sup>2</sup>DOA provides limited electronic receipt processing services for State Fire Marshal, Fire College. The Division of Treasury Check Cashing Facility function also provides check cashing services. Payment receipts without DOA involvement in the process are excluded from the scope of this engagement.

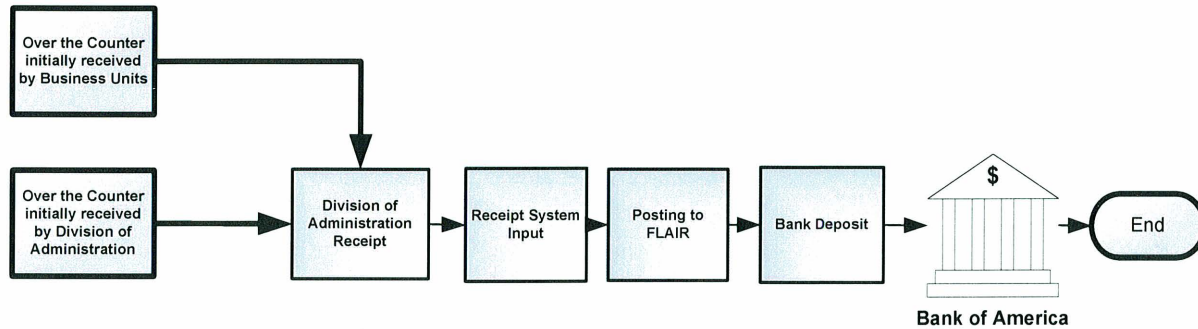
<sup>3</sup>CODA is a newer web-based system. RCP is a mainframe system implemented over 20 years ago by the former Department of Insurance. For FY 07-08, Department records indicate approximately 142,000 OTC receipt payments were processed through RCP and 38,000 through CODA. Department records also indicate 248,317 electronic receipts were processed through RCP and 55,382 through CODA.

Once the input of the receipt information is completed, payments are transferred to the Receipts Section's FLAIR team, where payment information is posted to FLAIR and reconciled with bank deposit

information. Upon completion of this reconciliation, payment receipts are delivered to the designated financial institution for deposit.

**Exhibit 2:**

**Over-the-Counter payments are initially received by the Division of Administration and by associated business units**



Source: Office of Inspector General Analysis

## AUDIT ISSUES

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### Over-the-counter payments cost more to process than electronic payments

The cost to process electronic payments is significantly less than processing costs associated with OTC payments. Based on an evaluation of direct costs incurred by the Division of Administration for FY 07-08, we calculated DFS per unit processing cost to be \$4.18 for OTC payments and \$0.77 for electronic payments.<sup>4</sup> Appendix A provides a more detailed description of the costs associated with both OTC and electronic payment processing. Electronic payments are less costly to process primarily due to the lack of significant manual involvement.

In addition, the electronic payment process results in additional interest earnings. Electronic payments are generally deposited into an interest bearing account within one business day, while the OTC payments process can take more than 10 days from initial receipt by the Department to bank deposit. Reduction in the number of days between receipt and deposit serves to increase the amount of interest earned from these payments.

For example, if payments from carriers of workers' compensation insurance and from self-insured businesses were all paid electronically, we estimate these payments would have earned approximately \$246,000 in additional accrued interest. In FY 2007-08, the Division of Workers' Compensation received 4,910 payments totaling \$218.4 million dollars from carriers and self-insured businesses. The average number of days from initiation of these payments by the insurer to deposit with a

financial institution was eight days. Because electronic payments are generally deposited within one business day, remittance of these payments electronically would have resulted in the aforementioned amount of additional accrued interest.<sup>5</sup>

Also, payments received electronically produce fewer account adjustments than OTC payments. Account adjustments are primarily generated when payments are dishonored by the financial institution for reasons such as insufficient funds or account closure. Required account adjustments are identified by the Division of Treasury and transmitted to applicable state agencies via debit memorandums.

Account adjustments serve to increase overall payment receipt processing costs. Required bank adjustments can also serve to adversely affect business unit operations. For example, the Division of Workers' Compensation issues exemptions to workers' compensation insurance requirements to individuals and businesses. We estimate that the Division will spend approximately \$40,000 to revoke previously issued exemptions in FY 2008-09. The primary reason for revocation of these exemptions is because payments were not honored by the financial institution due to insufficient funds after the exemptions were issued.

Finally, because electronic payment processing does not require any handling of checks or cash, there are greater assurances these payments will be properly safeguarded.

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<sup>4</sup>Per unit processing cost of \$4.18 includes actual salary and benefit costs incurred within the Receipts Section. Several Receipts Section vacancies were temporarily substituted during peak workloads with FTEs from other sections in DOA. Additional salary and benefit costs associated with these FTE substitution hours were not available.

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<sup>5</sup>The additional interest accrual was derived by multiplying the average number of days from the mail postmark date to deposit date for each month by the associated monthly payment amount and by the weighted average return of the Treasury Pool in FY 2007-08 (5.35%).

**Lack of payment receipt data increases risk of loss and prevents reliable performance measurement**

Some OTC payments are not uniquely identified when received, which increases risk of loss and prevents reliable performance measurement. For example, payments initially received by DOA are first uniquely identified when the payment information is keyed into RCP or CODA and not when the payment is initially received by the mail services section of the Division.

The identification and recording of the payment receipts helps to ensure all payments are properly safeguarded, and allows for the cost-effectiveness of the payment receipt process to be monitored. Identification and recording of the initial receipt of each payment helps ensure these assets are safeguarded because it allows for reconciliation between deposits and receipts, which serves to identify any payment that is not accurately processed.

In addition, the lack of payment data limits the ability to monitor the timeliness of the payment receipt process. Also, Florida law requires that payments are to be paid into the State Treasury not later than seven working days from the close of the week in which the funds were received.<sup>6</sup>

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## **RECOMMENDATIONS**

**Recommendation #1: Promote increased use of electronic payments**

To reduce manual processing costs, enhance interest earnings, and provide greater assurances incoming payments will be deposited and accurately recorded, we recommend the DOA strive to increase the percentage of payments received electronically.

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<sup>6</sup>As specified in [Section 116.01\(1\), F.S.](#)

Increasing the percentage of payments received electronically serves to reduce Department manual processing costs. In addition to \$3.41 in direct cost savings associated with each incoming payment converted from OTC to electronic, electronic payments result in fewer bank adjustments, resulting in further cost savings. Appendix A provides detailed information on costs to process OTC and electronic payment receipts.

Increasing the percentage of incoming payments received electronically also serves to expedite payment receipt process and produce additional interest earnings. Finally, the payment receipt process for electronic payments provides greater assurances these assets will be properly safeguarded.

Alternatives to increase the percentage of electronic payment receipts processed by the Department include:

- installation of point-of-sale terminals in district offices;
- charging fees that reflect Department processing costs;
- delaying approval of applications with an associated OTC payment until the payment is honored by the financial institution; and
- developing web-based payment and application processing systems.<sup>7</sup>

**Recommendation #2: Consider outsourcing selected OTC payment receipt processing functions to the Department of Revenue**

To help ensure OTC payments are safeguarded and to improve the cost-effectiveness of the payment receipt process, we recommend DOA consider

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<sup>7</sup>Pursuant to [Section 215.322\(1\), F.S.](#), it is the intent of the Legislature to encourage state agencies to make their services more convenient to the public through acceptance of electronic payments when the benefits to the agency and the public substantiate the cost. In addition, [Section 215.322\(3\)\(e\), F.S.](#), suggests a cost-benefit analysis to include other benefits to the agency and potential impact on general revenue.

outsourcing selected payment receipt process functions to the Department of Revenue. The Department of Revenue (DOR) has facilities and equipment to receive payments, electronically scan all associated documentation, and deposit payments with designated financial institutions.

The appropriate level of involvement by DOR in the payment receipt process may vary depending on business unit process requirements and the accounting information included with the payment. For example, when payments are received without accompanying documentation identifying the applicable funding category and account information, DOR can be contracted to receive incoming mail, electronically scan the check and associated documentation, and make a same day deposit into a Treasury issued holding account. The scanned documents, including the check, would be made available electronically to DOA and to the applicable business unit within one business day for payment entry into the appropriate receipting system, and posting to FLAIR.

For those payments that include documentation with the funding category and account information identified, DOR can perform additional payment receipt processing functions such as depositing payments into the appropriate fund account and identifying the appropriate customer account for each payment. Appendix B provides a description of the proposed payment receipt processing services and associated costs that DOR can provide the Department.

Contracting with DOR to perform selected payment receipt process functions will serve to reduce average payment processing costs, decrease average time to deposit, ensure payments are safeguarded, and help to improve overall Department effectiveness.

Contracting with DOR for these services can also serve to improve overall cost-effectiveness of payment receipt process functions performed by the DOA Receipts Section. For payments without accompanying accounting information, we estimate that contracting with DOR would result in a reduction in the average cost to process an OTC cash receipt by \$0.46.<sup>8</sup>

For payments received with sufficient accounting information, we estimate that the Department could save over \$157,000 annually in direct processing costs by outsourcing with DOR. In Fiscal Year 2007-08, DOA estimated that approximately 41,000 payments receipts included documentation with sufficient account information to allow for DOR to perform all of the payment receipt processing services currently provided by DOA. Based on a savings of \$3.82 per payment, outsourcing these services would result in an annual savings of over \$157,000.<sup>9</sup>

Contracting for check depositing services with DOR would also serve to reduce the average time to deposit checks, and thus increase the amount of interest earned by the Department from these payments. DOR reported its payment deposit services ensure an average time of deposit of less than one day.

For example, if payment associated with the unclaimed property were receipted and deposited by DOR, we estimate it would result in an additional \$257,650 in annual accrued interest. Based on a sample of unclaimed property payments received by Division of Accounting and Auditing in FY 07-08, we determined the average monthly

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<sup>8</sup>The savings estimate is based on the difference between the proposed DOR cost of \$0.07 per check deposit and a savings of \$0.36 per payment associated with functions performed by the DOA mail section and \$0.17 in savings associated with the depositing function performed by the DOA Receipts Section FLAIR Team.

<sup>9</sup>DOR start up costs not included in cost savings. Other DFS incurred cost associated with machine readable form development not included.

variation in the number of days from initial receipt to bank deposit ranged from four to ten days.<sup>10</sup> If these payments were received and deposited by DOR, the average days to deposit would have been reduced to less than one day, and resulted in the aforementioned additional annual accrued interest.<sup>11</sup>

Contracting with DOR for scanning services would also significantly reduce business unit expenses and help to improve performance. For example, In FY 07-08, the Division of Workers' Compensation reported that it expended \$176,724 to scan 479,030 documents, an average of \$.37 per page.<sup>12</sup> Based on a DOR cost of \$.04 per scanned document, these costs could have been reduced by approximately \$150,000 had DOR provided these electronic scanning services.<sup>13</sup>

Electronic scanning of check and transmittal documentation by DOR would help to improve the effectiveness of the Department's operations. Electronically scanned documentation would permit

payment and transmittal documentation to be simultaneously sent to the applicable business units and DOA for processing, thus allowing business units to complete their payment accounting process in a timelier manner.

In addition, extensive use of electronic scanning services by DOR can serve to improve services provided in response to customer inquiries. By electronically scanning all incoming correspondence, to include correspondence without an associated payment, the Department could more efficiently route inquiries to designated respondents. In addition, electronic scanning of documentation allows for enhanced access to necessary data and documentation.

Finally, contracting with DOR to provide check depositing services would reduce risk of loss to the Department. Use of DOR-provided payment scanning and depositing services will provide assurances that each payment is adequately safeguarded. Unique payment information from each scanned check can be compared with deposit information provided by financial institutions to ensure all payments are deposited and accurately recorded.

The Department may be able to more easily transfer selected payment receipt process functions for payments received directly by the DOA mail section. These payment receipts are processed by DOA without any business unit involvement. Consequently, transfer of selected payment receipt processing function to DOR can be performed for these payments without impacting business unit operations.

For payments initially received by business units, DOA should coordinate with the applicable business unit to ensure the transfer of any payment receipt process functions to DOR enhances safeguards against loss, improves the cost effectiveness of both business unit

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<sup>10</sup>In FY 2007-08, the average time from initial receipt to bank deposit of unclaimed property payments was six days. The initial receipting function performed by the Bureau of Unclaimed Property averaged two days, with the remaining annual average of four days attributable to functions performed by DOA. The total average days from initial receipt to bank deposit varied each month during the year, ranging from an average of four days for several months to ten days in May 2008. These monthly variations were primarily attributable to fluctuations in the number of payments received each month.

<sup>11</sup>The additional interest accrual was derived by multiplying the average number of days from the receipt date by the Bureau of Unclaimed Property to the input by DOA for each month by the associated monthly payment amount and by the weighted average return of the Treasury Pool in FY 2007-08 (5.35%). The average time used in this calculation excludes time from receipt system input to bank deposit as this estimated time is the same as the estimated total time to deposit if receipt and depositing services were outsourced to DOR.

<sup>12</sup>The Division of Workers' Compensation scanning cost for Bureau of Compliance staff members located in 10 district or field offices and an Office of Data and Quality Collection staff member located in Tallahassee.

<sup>13</sup>Estimated savings are based on DOR scanning of 680,000 pages, which would include associated envelopes and extraneous documents.

operations and the payment receipting process.

**Recommendation #3:** Require a periodic reconciliation of OTC payment receipt data with bank deposit information.

For those payments where it is not feasible for DOR to provide OTC receipting and depositing services, we recommend that AP&P 3-01 be modified to require that unique identifier information for each payment be recorded when received by the Department and a periodic reconciliation of this payment information with bank deposit information be conducted.

Unique identifier information such as name, check number and amount, along with the Department receipt date, should be captured at the initial point of entry. A periodic reconciliation between payment receipt and bank deposit information will serve to ensure these payments are accurately processed in and deposited in a measurable manner and to allow time from receipt to deposit to comply with statutory requirements perilously referenced.

**Recommendation #4:** Require that OTC payments received in district offices be deposited locally

For those payments where it is not feasible for DOR to provide OTC receipting and depositing services, we also recommend that each OTC payment that is received in district offices be locally deposited by the associated business unit. To ensure proper recording in FLAIR, a copy of the bank deposit information, with unique check identifier information, should be sent to the DOA receipts section. District office performance of the depositing function will help ensure these payments are adequately safeguarded and reduce the time from initial receipt to bank deposit.

**Recommendation #5:** Delegate to the DOA Director, the responsibility for effective implementation of all payment receipt processing procedures

To ensure that payment receipting processing procedures cost-effectively provide adequate safeguards, we recommend AP&P 3-01 be modified by delegating the Director of the Division of Administration with the authority to ensure the procedure used to perform the payment receipt process, including those used by business units, adequately safeguards assets.

**Recommendation #6:** Develop measures to monitor the performance of the cash receipt process.

To ensure that the payment receipt process is cost-effectively performed, we recommend that DOA develop performance measures for this process. Specifically, we recommend that DOA develop performance measures to identify the following information:

- The number of OTC and electronic payments received;
- The average cost to process a payment receipt; and
- The average time from initial receipt of a payment to bank deposit.

This performance information will help ensure that the cash receipt process is effectively managed. Periodic reporting and monitoring of these performance metrics will allow management to identify trends and conditions that may pose risks to accomplishment of the process objectives. In addition, collection of this information will allow DOA to quantify improvements made to the process and to analyze the impact of implemented process changes.

## **DISTRIBUTION LIST**

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### **Information Distribution:**

This report is distributed, with all exhibits and attachments, to:

Alex Sink, Chief Financial Officer  
Jim Cassady, Chief of Staff  
Diana Flagg, Director, Division of Administration  
Michael Alexander, Chief of Financial and Support Services

### **File:**

The original of the complete report has been placed in the Audit File.

**The Department of Financial Services' mission is to safeguard the people of Florida and the State's assets through financial accountability, education and advocacy, fire safety, and enforcement.**

**The Department's vision is to be known as the most ethical, professional and proactive state agency in Florida.**

**The mission of the Office of Inspector General is to promote integrity, accountability and process improvement in the Department.**

**The Office of Inspector General's vision is to provide objective fact-based perspectives to the Department team; championed by our customers, benchmarked by our counterparts, and dedicated to quality in our products and services.**

**This audit was conducted pursuant to Section 20.055, Florida Statutes, in accordance with applicable Principles and Standards for Offices of Inspectors General as published by the Association of Inspectors General and the International Standards for the Professional Practice of Internal Auditing as published by Institute of Internal Auditors, Inc. This audit was conducted by Patricia Lee and was supervised by Chuck Hefren, Audit Director. Please address inquiries regarding this report to the DFS Office of Inspector General at (850) 413-3112.**

## APPENDIX A

### Florida Department of Financial Services Unit Cost Methodology

#### Mail Services Section

All expenses: Direct Costs	\$520,555	
Actual Salary & Benefits Costs	\$433,017	
Number of FTEs	11	
Overhead costs: Direct Costs less Salary & Benefits	\$87,538	[\$520,555 - \$433,017 = \$87,538]
Overhead costs per employee (11 FTEs)	\$7,958	[= \$87,538/11= \$7,958]
Number of incoming pieces of mail (FY 07-08)	1,292,519	

Position	Salary & Benefits	Overhead Applied	Time involved in Activity	Cost by FTE	Per unit cost of Overnight mail	Per unit cost of Regular mail
43000437	39,373	7,958	100%	47,331	0.80	
43004061	45,412	7,958	100%	53,370		
43004021	23,452	7,958	100%	31,410		\$0.36
43000163	29,817	7,958	100%	37,775		
43000713	42,943	7,958	100%	50,901		
43000352	40,788	7,958	100%	48,746		
43000180	38,902	7,958	100%	46,860		
43001127	41,051	7,958	100%	49,009		
43000608	37,620	7,958	100%	45,578		
43000322	26,888	7,958	100%	34,846		
43000981	66,771	7,958	100%	74,729		
<b>433,017</b>	<b>87,538</b>			<b>\$520,555</b>	<b>0.80</b>	<b>0.36</b>

0.40 per unit cost of mail  
(blended average)

[\$520,555/1,292,519 = \$.40]

\$100,701/126,369 0.80

\$419,854/1,166,150 0.36

## APPENDIX A (continued)

### Receipts Section

Expenses	\$812,145
Actual Salary & Benefits Costs	\$784,736
Overhead: Expenses less Salary & Benefits	\$27,409
Overhead costs per employee (18 FTEs)	\$1,522.72

Position	Non-Supervisor Salary & Benefits	% of FTE count for the section - supervisor	% Over the Counter Receipts	% Electronic Receipts	Supervisor Salary Applied	Overhead Applied	Over the Counter		Electronic Costs
							Over the Counter Cost	Depositing	
<u>Supervisor</u>	-					-			
43001102	\$66,843.08					\$1,522.72			
<u>1st Processing Team</u>									
43000475	\$47,350.93		100.0%			\$1,522.72	\$48,873.65		
43000895	\$46,204.86		100.0%			\$1,522.72	\$47,727.58		
43000580	\$42,990.07		100.0%			\$1,522.72	\$44,512.79		
43000369	\$30,447.02		100.0%			\$1,522.72	\$31,969.74		
43000098	\$24,221.07		100.0%			\$1,522.72	\$25,743.79		
43000718	\$20,598.74		100.0%			\$1,522.72	\$22,121.46		
43001283	\$39,348.32		100.0%			\$1,522.72	\$40,871.04		
43001189	\$27,509.98		100.0%			\$1,522.72	\$29,032.70		
43004753	\$46,496.56		100.0%			\$1,522.72	\$48,019.28		
		52.9%			Supervisor: \$35,387.51	\$806.15	\$36,193.66		
						Team Cost:	\$375,065.69		
		Average:		Cost/(OTC-LSOP=138,470)		per unit:	\$2.71		
<u>FLAIR Team</u>		65.83%		34.17%					
43000147	\$39,351.81		90.0%	10.0%		\$1,522.72	\$32,699.62	\$4,087.45	\$4,087.45
43000411	\$41,770.32		95.0%	5.0%		\$1,522.72	\$36,799.08	\$4,329.30	\$2,164.65
43004832	\$55,177.91		75.0%	25.0%		\$1,522.72	\$36,855.41	\$5,670.06	\$14,175.16
43001103	\$40,119.77		50.0%	50.0%		\$1,522.72	\$16,657.00	\$4,164.25	\$20,821.25
43000280	\$44,236.36		25.0%	75.0%		\$1,522.72	\$6,863.86	\$4,575.91	\$34,319.31
43000321	\$52,377.32		60.0%	40.0%		\$1,522.72	\$26,950.02	\$5,390.00	\$21,560.02
		35.3%			Supervisor: \$23,591.68	\$537.43	\$13,472.08	\$2,412.91	\$8,244.11
						Team Cost:	\$170,297.08	\$30,629.89	\$105,371.94
		Average:		Cost/(OTC=180,621)		per unit:	\$0.94	\$0.17	\$0.34
<u>eCommerce Team</u>									
43004172	\$77,439.16			100.0%		\$1,522.72			\$78,961.88
43004463	\$42,252.55			100.0%		\$1,522.72			\$43,775.27
		11.8%			Supervisor: \$7,863.89	\$179.14			\$8,043.04
						Team Cost:			\$130,780.19
		Average:		Cost/(electronic=308,017)		per unit:			\$0.43
							\$545,362.77	\$30,629.89	\$236,152.13
						Cost per unit	\$3.82		\$0.77
						Regular mail per unit	\$0.36		
							\$4.18		

LSOP = Legal Service of Process receipts

## **APPENDIX B**

### **DFS & DOR COSTS FOR SERVICES PROPOSED METHODOLOGY January 8, 2009**

The following suggests a concept for the Department of Revenue to perform certain processing of remittances received for the Department of Financial Services.

The concept is to scan all documentation received with minimal screening/sorting, if any. This includes the check, back-up documentation and envelope. The scanned envelope will act as the separator and define a transaction. The check will be perfected without defining the application of each payment and will be deposited into a concentration account controlled by DFS. We will provide DFS with a file of all the images. DFS will review each transaction from image and allocate the payments into the correct fund. FDOR will be responsible for;

- Receiving and extracting the remittances
- Scanning all the contents and “breaking” each transaction with the envelope
- Perfecting and depositing the checks
- Providing deposit information for DFS to record the total deposit into FLAIR
- Providing images
- Forwarding the original back-up documentation to DFS

## **CHECK PROCESSING**

### **PROCESS**

This process will utilize our imaging equipment for imaging the contents of each remittance. We expect the majority to consist of a check, invoice document and an envelope. Even though the configuration of the remittances will not all be uniform this will not be a problem. The process can accept multiple checks and documents in one transaction. All pages will be imaged.

### **COSTS**

#### **CHECK PROCESSING**

**\$0.07 per check**

This services includes;

- Processing of the payment

- Capture payment amount and clearing data from each check
- Electronically deposit payments(via Image Cash Letter)
- FTP(file transfer) the deposit data to DFS
- A processing charge will be billed for each check processed

#### IMAGE PROCESSING

**\$0.04 per page**

These services include;

- Mail extraction
- Imaging the documentation (envelope, correspondence, bill, or check). Images all pages in the submission.
- Separate “submissions” will be identified using the envelope to break each submission
- Image file transfer(FTP) of all images
- Back-up image archival at DOR and image retrieval
- The processing charge is per page imaged. Each check, envelope, and invoice page will each be considered a page.
- The front and back of each “page” will be imaged.

#### NO CHARGE ITEMS

**no charge**

- Mail pick-up (if on established route)
- Rejecting any item based on rules mutually determined by DFS and DOR

#### PROCESS DEVELOPMENT

**\$12,000 maximum**

- Cost for the programming/system development to facilitate the data capture and transmittal of data and the deposit of checks
- A one-time charge for the process development based upon actual hours to complete at \$60 per hour.
- This charge is limited to \$12,000 for this application

**PROPOSAL**  
**DFS & DOR**  
**PROPOSED METHODOLOGY**  
**ORIGINAL DRAFT**

The following proposal suggests a methodology for the Department of Revenue (DOR) to perform contracted services for the Department of Financial Services (DFS). The services include the processing of various remittances received by DFS.

**REMITTANCE PROCESSING**

**PROCESS**

This process utilizes our high speed equipment for remittances that consist of a check and a payment coupon. The process can also accept multiple checks and coupons in one transaction. The configuration of each invoice will need be re-designed. The remittances will be received in courtesy reply envelopes provided with the invoice. Invoices will have detachable coupons at the bottom with payment application information detailed in an OCR line of data at the bottom of the coupon. All processing (screening) procedures will be developed by DFS and DOR jointly. Remittances will be imaged and DFS will access the image archival system remotely (or will receive an FTP of the data and images).

**COSTS**

PROCESS DEVELOPMENT **\$10,000 maximum**

- Cost for any required programming/system development to facilitate the deposit of checks, capture of data and data file transmission.
- A one-time charge for the process development based upon actual hours to complete at \$60 per hour.
- This charge is limited to \$10,000 for this application

PAYMENT AND COUPON PROCESSING **\$0.400 per remittance**

- Processing of the payment with the coupon transmittal
- Mail pick-up and extraction, document screening per requirements, capture of required data, data file transfer (FTP), and image archival and access.
- Reviewing and extracting transactions that are rejected from processing based upon rules provided by DFS
- Sorting remittances per established criteria
- Deposit of check remittances(via Image Cash Letter)

- Image capture and archival of remittance documents.
- Image “location” numbers (DLN) will be provided in the FTP
- Image access provided to DFS

### **DFS REQUIREMENTS**

This proposal is dependent upon DFS performing a redesign of the invoices per DOR specifications to include the following;

- One page format
- Tear off coupon on bottom
- OCR line (or scan line) of data to define the payment application
- Courtesy reply envelope with each invoice mailed



REPRESENTING  
**ALEX SINK**  
CHIEF FINANCIAL OFFICER  
STATE OF FLORIDA

## MEMORANDUM

TO: Bob Clift  
FROM: Diana Flagg *D. Flagg*  
DATE: March 13, 2009  
SUBJECT: Payment Receipts Preliminary and Tentative Audit Report

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Attached is the Division of Administration's revised response to the revised Payment Receipts Preliminary and Tentative Audit Report, dated March 6, 2009.

Please let me know if you need additional information or have any questions.

DF/lm

Attachment

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Division of Administration  
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## **Division of Administration Response to Office of Inspector General's Payment Receipts Preliminary and Tentative Audit Report**

**AUDIT ISSUES:** (1) Over-the-counter payments cost more to process than electronic payments and (2) lack of payment receipt data increases risk of loss and prevents reliable performance measurement.

### **Recommendation #1: Promote increased use of electronic payments**

We concur. The Division of Administration (DOA) will identify potential payments that can be submitted electronically and notify the applicable Division Directors and Deputy Chief Financial Officers by March 31, 2009 for their consideration and plans for promoting the increased use of electronic payments. Information received back from the Divisions will be presented to the Chief of Staff and Deputy Chief Financial Officer over the Division of Administration. In addition, the DOA will revise Administrative Policy and Procedures (AP&P) 3-01, Receipt of Payments, to include the acceptance of electronic payments where applicable as a payment option. Modifications to the AP&P will be completed, reviewed and approved for placement on the DFS intranet site by no later than September 30, 2009.

### **Recommendation #2: Consider outsourcing selected OTC payment receipt processing functions to the Department of Revenue**

We concur. DOA will work with the Office of Strategic Planning to facilitate a business case analysis to ascertain the costs and benefits of outsourcing the OTC payment receipt processing function to the Department of Revenue. The DOA has begun preliminary discussions with the Department of Revenue and the affected business areas to determine feasibility of outsourcing. In addition, if the business case analysis determines outsourcing all or a portion of OTC payments to the Department of Revenue is not feasible, the DOA will explore requiring all OTC payments to be submitted directly to the DOA for deposit or, if received by field offices, deposited directly in a local bank. This alternative will allow DFS to recognize additional interest earnings. Upon receipt of the checks from the business area or the mailroom, the DOA currently deposits 75 – 80% of checks before noon on the same day of receipt with the remaining portion deposited within one working day (during selected peak periods, all checks are deposited within two working days).

### **Recommendation #3: Require a periodic reconciliation of OTC payment receipt data with bank deposit information**

For those payments that can not be submitted electronically as determined in Recommendation #1 above or are not deemed to be candidates and/or found not to be cost beneficial for outsourcing to Department of Revenue, as in Recommendation #2 above, AP&P 3-01 will be modified to require the recording of unique identifier information (name, check number and amount) for each payment received by the Department. Further, the AP&P will be modified to ensure periodic reconciliation of

payment information with bank deposit information. Currently, on an average day, the DOA directly receives between 200 to 300 payments. We estimate a .5 FTE will be needed in the Mailroom to record or scan the unique identifier information for each payment. Through other areas of efficiencies to be recognized within DOA, a position may become available that can be dedicated for this purpose. This will be determined by September 30, 2009. DOA currently has controls in place to ensure that all checks received by the Receipts Section are properly deposited in a timely manner. These controls include keeping checks in a locked secure area, using bundle sheets to track checks and reconciling the batch of checks input into the receipting system to the deposit on a daily basis. In addition, the Department has adequate separation of duties that allow for a compensating control to identify payments that are not appropriately applied. This control is the issuance of a license or reduction of a fee or fine imposed by the Department.

**Recommendation #4: Require that OTC payments received in district offices be deposited locally**

We concur. For those payments that can not be submitted electronically as determined in Recommendation #1 above or are not deemed to be candidates and/or found not to be cost beneficial for outsourcing to Department of Revenue, as in Recommendation #2 above, the DOA will work with the Division of Treasury and the applicable Divisions to determine the feasibility of having district offices deposit OTC payments locally. Any deposit (performed by the field office or Department of Revenue) will require modifications to the two cash receipting systems (RCP and CODA). We have confirmed with Division of Information Systems that modifications will be needed to both systems but to what extent is unknown at this time. These modifications include allowing DOA to input payment information without creating a deposit number. Currently, both cash receipting systems create a deposit number when OTC payments are input. The cash receipting system deposit numbers will not match Treasury deposit numbers. DOA will make an assessment by September 30, 2009 as to the time and resources necessary to complete these modifications. As noted in the response to Recommendation #2, the DOA will also research the feasibility of having OTC payments sent directly to the DOA instead of the district offices.

*IG Comment:*

*We don't disagree with DoA's assertion that RCP or CODA system modifications may be necessary to implement the solution they envision; however, our recommendation was that a separate (interest bearing) subaccount account would be utilized to temporarily hold district office or DOR deposits until completion of the DoA receipting and reconciliation process at which point transfer to the Treasury account would be made. We do not believe the recommended approach would generate the duplicative deposit numbers in RCP or CODA that DoA is attempting to avoid by pursuing modifications to the RCP or CODA receipting systems (since there is a single deposit into the Treasury account).*

**Recommendation #5:** Delegate to the DOA Director, the responsibility for effective implementation of all payment receipt processing procedures

We concur. AP&P 3-01, Receipt of Payments, will be modified to reflect this delegation of authority to the Division Director of DOA by no later than September 30, 2009.

**Recommendation #6:** Develop measures to monitor the performance of the cash receipt process

We concur. Currently, the DOA already measures a number of performance activities which include, but are not limited to, the number and dollar amount of OTC and electronic payments received, the efficiency of Receipt Section staff, etc. DOA will work with the different business areas to capture performance measures such as average cost to process a payment receipt and the average time from initial receipt of a payment to bank deposit by September 30, 2009.