



ELECTRONIC SUBMISSION OF STATE REVENUE



Cohort 8 – 2018

SCAN MASTERS

Amber Griffith

Amy Haller

Sara Newell

JacLynn Romine

Matt Them

TABLE OF CONTENTS

Executive Summary	2
Introduction (Problem Statement)	3
Background	3
Objectives	4
Segment of State Agency Remote Locations Map	5
Research Strategies	6
Findings & Analysis	6
Survey Results	6
Interview Data	8
Conclusion	12
Recommendations	12
Next Steps	13
References	14

EXECUTIVE SUMMARY

Each agency is defined by its service to Ohio taxpayers and its contribution to managing State of Ohio tax revenue. Whenever an innovative idea can be easily implemented and used by all agencies, as well as save the state money, it should be considered a practical endeavor to pursue.

The State maintains an Ohio Administrative Code (OAC) that requires agencies to deposit funds received within three days. OAC 113-1-02 requirements are mandated through auditing by the Auditor of State's Office. During our research, we discovered that most agencies with remote locations have problems complying with this law. Audit findings from the Auditor's Office back this up.

When it comes to revenue processing, each agency has a local process of their own that often hinders their ability to comply with the law. Issues vary as to the reasons agencies are unable to comply. Some examples include, travel requirements, mail handling, quantity of incoming check revenue, and the approval process. Some locations specified internal processing time from receipt to Key Bank delivery exceeds the three day rule.

As we all know, technological advancement within the last 30 years have paved the way to create new and innovative processes daily. Electronic funds transfers have been instrumental in changing the way resources are moved. It's time for state agencies to move forward by implementing these innovative processes.

The purpose of this project is to provide options for state agencies to submit check revenue electronically from remote locations outside of their central fiscal office. This will allow the agency to be compliant with the three-day requirement outlined in OAC 113-1-02. Based on our research, we have discovered that this process effectively, reduces costs, is moderately easy to implement, and saves state tax dollars. All are excellent reasons to apply this new process across all state agencies.

INTRODUCTION

Many state agencies, specifically ones with remote locations, have difficulty complying with the OAC 113-1-02 requirement of depositing revenue into a state account within three business days. Agencies are hiring couriers or placing checks in the mail and mailing checks to their central office to be deposited. These processes can take two to three weeks before a check is deposited with the Treasurer of State. As more time passes, the likelihood of checks being lost or misplaced increases. In addition to the time it takes to get the check to the physical location, many agencies have complex processes involved with depositing their check revenue. In some cases, the same systems have been around for many years without updating or looking for efficiencies.

Utilizing technological advancements in banking, checks can now be scanned remotely and immediately credited to a state account. This process avoids the inefficiencies of transporting a physical check through US mail or inter-office mail and will ensure compliance with the OAC time requirements, as well as, improve cash flow for the state.

BACKGROUND

The legislation determining how payments would be made into the state treasury was adopted on February 21, 1986 as an emergency rule, OAC 113-1-02. The rule originally stated: "Fees and moneys to be paid bi-weekly. At least twice each week, every state officer, state institution, department, board, and commission shall pay to the treasurer of state all moneys, checks, and drafts received for the state, or for the use of any such state officer, state institution department, board, or commission from taxes, assessments, licenses, premiums, fees, penalties, fines, costs, sales, rentals, or otherwise. In order to provide efficient processing of deposits, the procedures shall be followed as provided in this rule." The original rule provided for some lenience by not specifying the number or days between the deposits. Depending on the day of the week the first deposit was made, there was the potential for there to be more than three days between deposits.

Currently the rule states "Fees and moneys to be paid timely. Within three business days of receipt by a state entity or deposit into a state entity's banking account established by the treasurer, every state entity shall pay to the treasurer all moneys, checks and drafts, wires and revenue from financial transaction devices received for the state, or for the use of any such state entity, from taxes, assessments, licenses, premiums, fees, penalties, fines, costs, sales, rentals, or otherwise. A separate revenue pay-in document supporting the deposit will be submitted concurrently with every deposit. In order to provide efficient processing of deposits, the procedures shall be followed as provided in this rule."

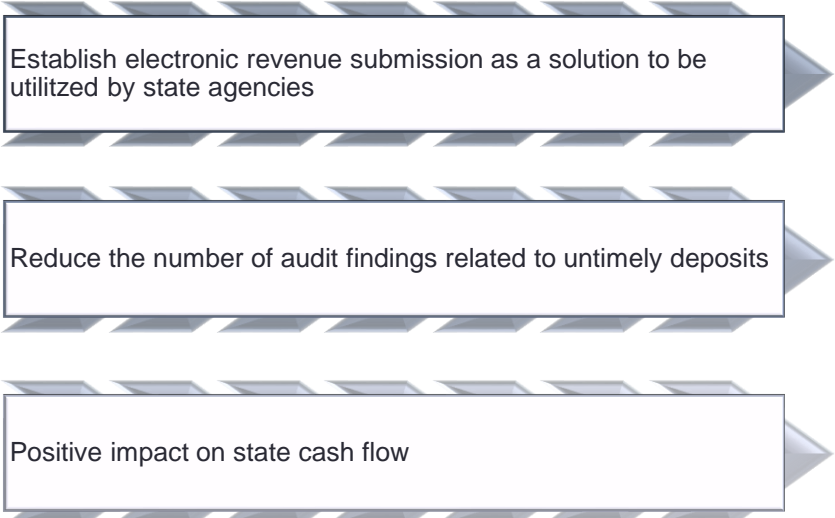
Most agencies with central offices deposit the revenue with the treasurer of state once it is received from their remote locations. The Auditor of State is writing up agencies year after year for not complying with the rule as stated above (within three business days of receipt). State agencies are eager for a solution to avoid audit findings for untimely deposits. There needs to be a standardized process to assist agencies in complying. Currently, each agency has their own process that takes a lot of time and touches several people. These processes allow for a lot

of error and the possibility of losing revenue. If the State moved to electronic scanning, this would allow for greater efficiency and improve the State's cash flow as funds would be deposited in a more-timely manner.

In addition, some remote locations are working to abide by the rule to deposit funds into local accounts. This creates another question of when funds are considered to be deposited. The SAFE Policy Manual states "Office of Budget and Management State Accounting clarified a lockbox or bank account established with the Treasurer of State (TOS), credit card receipts, and federal draws meet the intent of this requirement. If agencies deposit funds to a holding account they must ensure those funds are deposited promptly into the appropriate fund."

Even though revenue is received and processed differently across state agencies, this electronic submission solution can be easily implemented regardless of current procedures. Potential barriers include budgetary constraints with purchasing new equipment, lack of agency participation implementing the process, and resistance from field staff. If planned correctly and supported by the State as a whole these potential barriers could be overcome meeting the below objectives.

Objectives

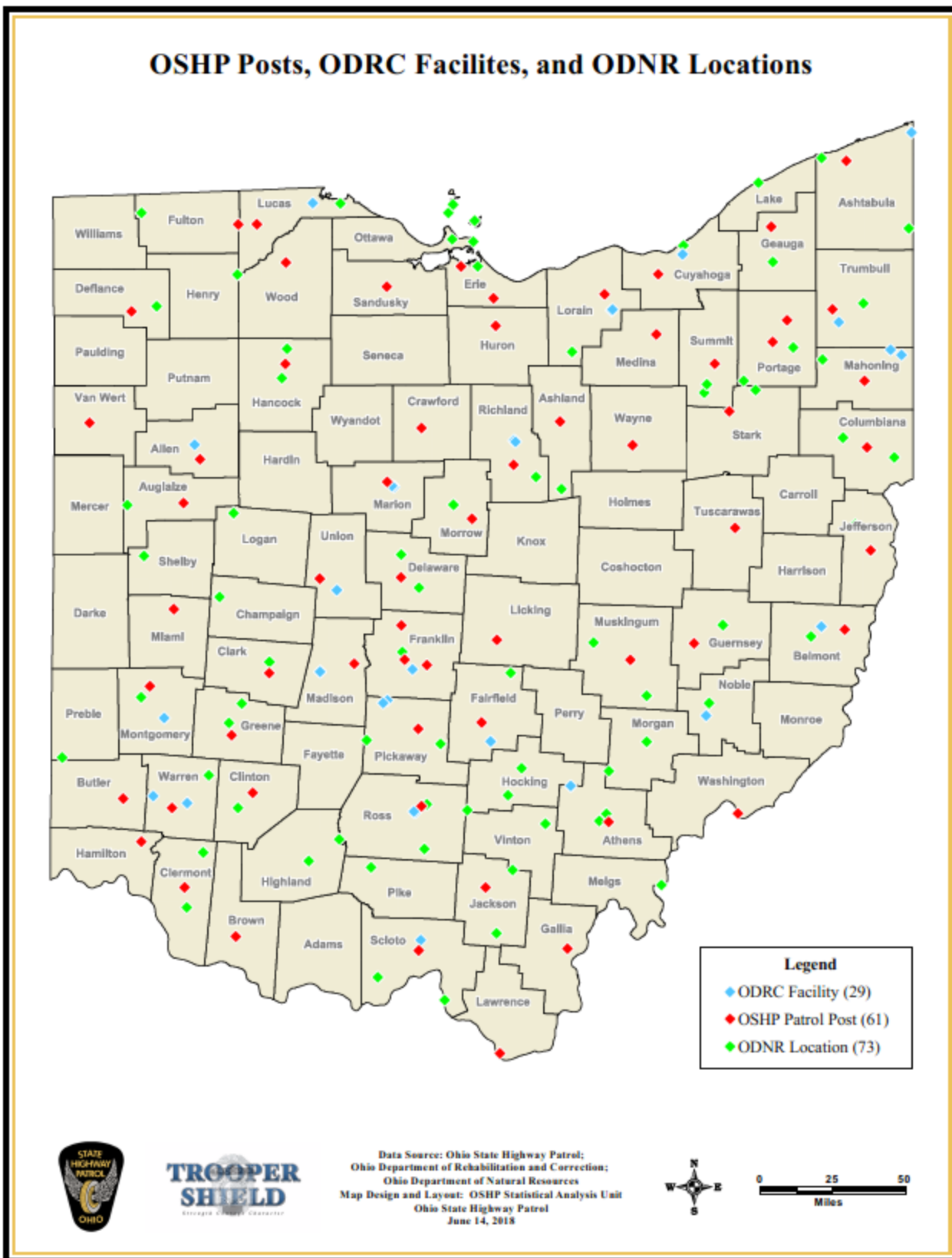


Establish electronic revenue submission as a solution to be utilized by state agencies

Reduce the number of audit findings related to untimely deposits

Positive impact on state cash flow

The below map illustrates a segment of remote locations that receive check revenue. Agencies such as: State Highway Patrol Posts, Department of Rehabilitation and Correction Prisons, and Department of Natural Resources Parks and Wildlife locations are represented.



RESEARCH STRATEGIES

When starting our research we became aware that several agencies brought up the issue of audit findings for this rule. We decided to send a survey to agency Fiscal Officers to find out how wide spread the problem really is. We asked the following questions:

1. *What challenges have your agency experienced trying to remain compliant with the three-day rule?*
2. *Does your agency receive revenue by check at remote locations, other than your central fiscal office?*
3. *What processes have you implemented to remain compliant?*

Based on feedback from the survey and talking to individuals in our cohort we were able to obtain several subject matter experts (SME). We reached out to the following:

Amy Smith – Department of Natural Resources
Maurice Bryant – Department of Rehabilitation and Corrections
Matt Them – State Highway Patrol
Lea Ann Lozier-Allen – Department of Commerce

We conducted our interviews with our SME's in person and over the phone. We started with the following questions:

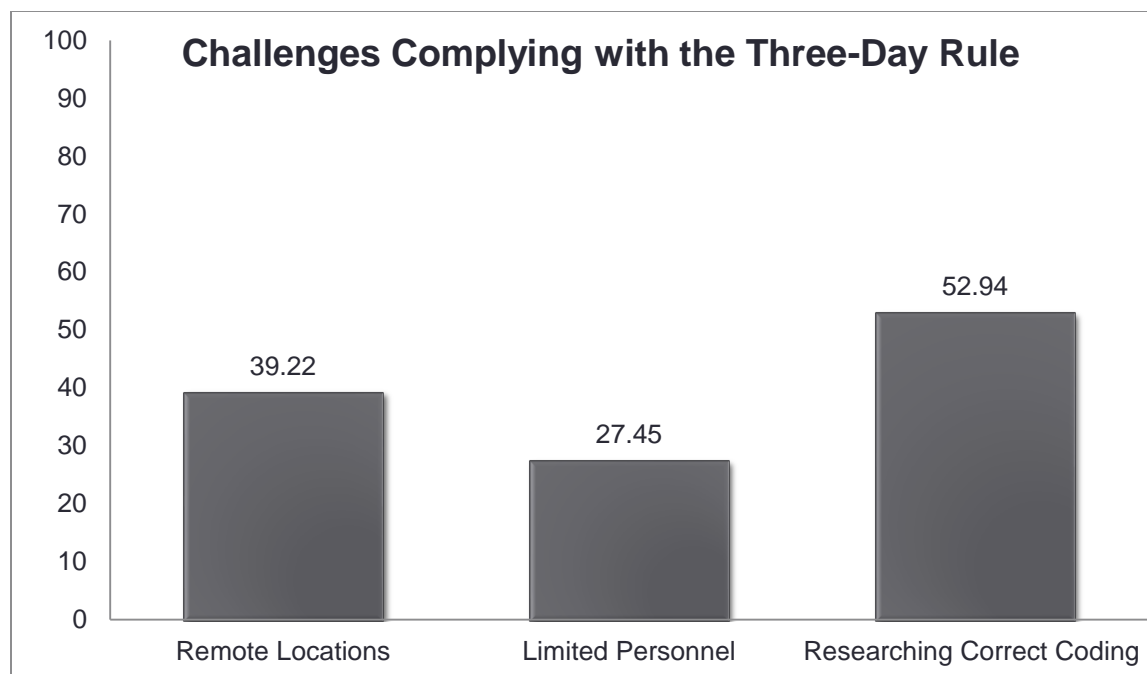
1. *What problems were you experiencing complying with OAC 113-1-02? What did you do to resolve?*
2. *What type of revenue do you receive?*
3. *What benefits have your agency experienced upon implementation of scanning?*
4. *Were there any challenges with the implementation?*

In addition to our SME interviews we received additional information from Cathy Dotson from the Department of Agriculture who had participated in a Lean Ohio project on check deposits. Kelly Salomone from the Office of Budget and Management, Office of Internal Audit, provided some audit statistics related to the timeliness of check deposits.

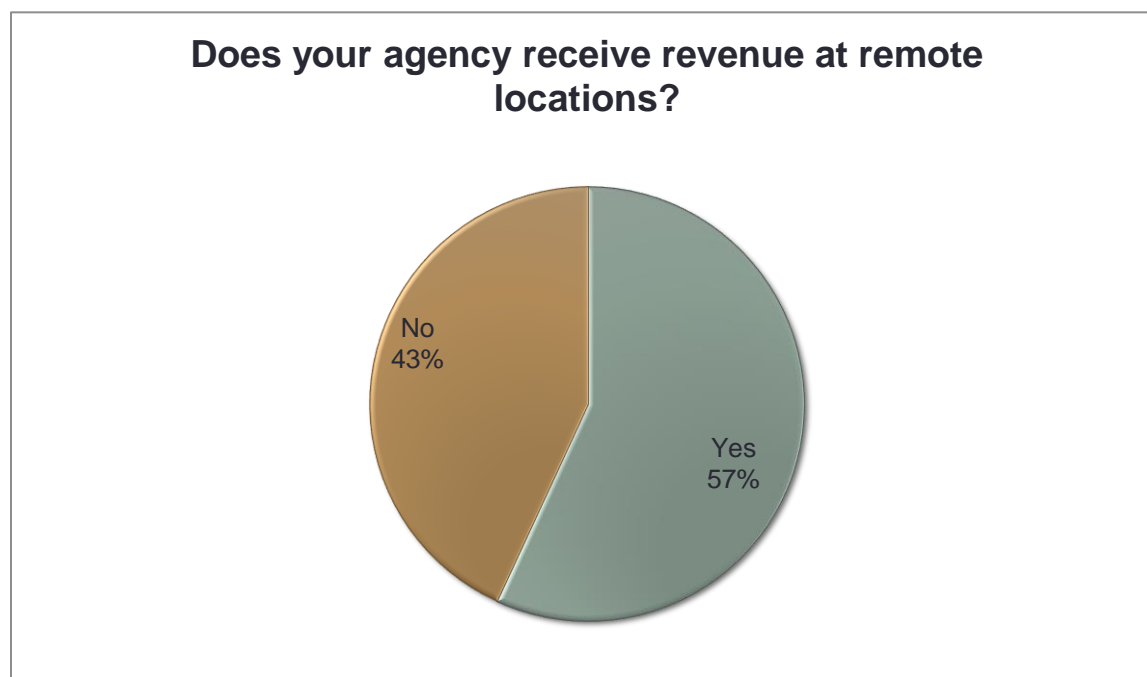
FINDINGS & ANALYSIS

SURVEY RESULTS

The findings from our research began with our survey results and analysis. As stated in the Research Strategies section above, we sent out a survey to over 200 fiscal personnel in which we received about 50 responses. It was a very short three question survey. We were hoping for more responses than what we received, but submitted responses were quite helpful. According to survey results, over 50% of the respondents found it difficult to remain compliant with the three-day rule. Reasons included delays from researching errors, determining the proper fund to deposit into, and other clerical issues. Another 39.22% state that they could not remain compliant with the three-day rule due to delays in receiving the physical check at their central office from a remote location. See figure below.

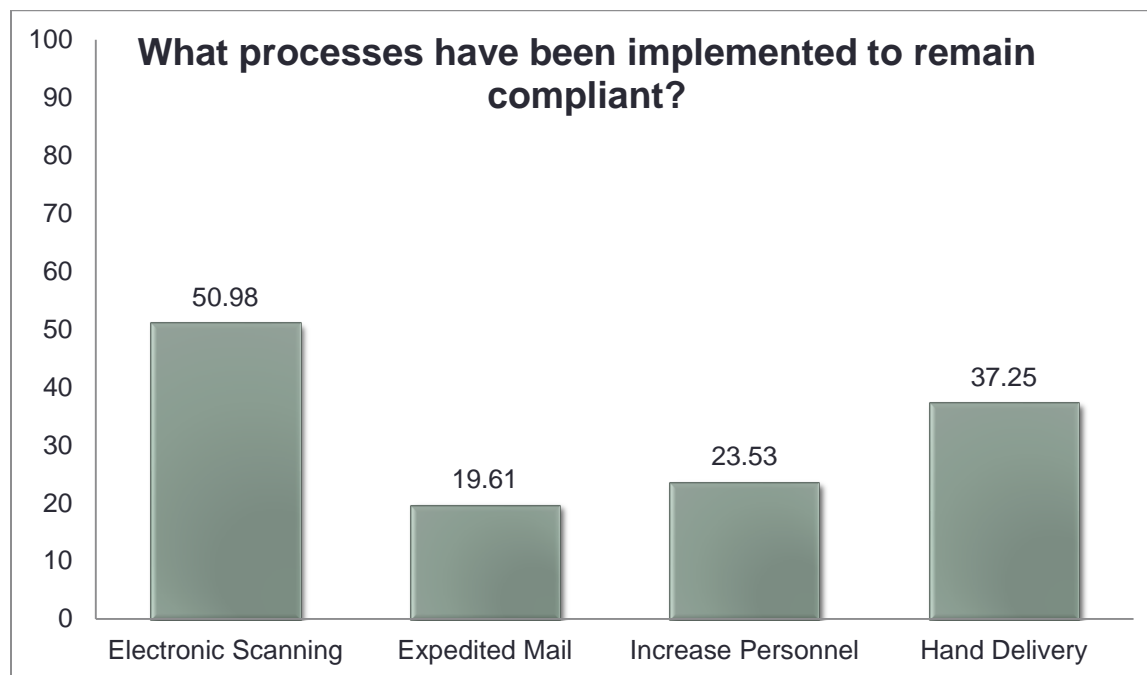


Our survey also confirmed our assumption that much of the State's revenue is received in remote locations as opposed to a central office. Over 50% of the survey responses indicated that they receive revenue by check at remote locations, rather than at central fiscal office. See figure below.



We were surprised to learn that over 50% of the respondents stated they have already implemented electronic check submission processes to some extent (See figure below). Overall,

the survey results led us to interview subject matter experts that actually process these transactions to dig deeper into the root cause of the issue.



INTERVIEW DATA

Results from Subject Matter Expert interview are outlined below.

Amy Smith, Department of Natural Resources

Many agencies are aware of their inability to comply with the law. Ms. Amy Smith, a Fiscal Analyst at Department of Natural Resources in the Parks and Watercraft division states, “We have 71 locations in the State of Ohio that generate revenue. Our largest revenue source for parks is camping and the largest for watercraft is registration fees.” Ms. Smith indicated a high degree of difficulty in complying with the three-day law with 71 locations in and around the state of Ohio. Each of these locations - is required to abide by the law regardless of size and proximity to Central Office.

Each location deposits funds into a local bank account. One of Ms. Smith’s job duties is reconciling revenue from each location. The magnitude of reconciling receipts and deposited funds is a massive undertaking when dealing with 71 local banks providing Ms. Smith daily information. She deals with revenue on a daily basis. Funds are collected locally and deposited weekly into local bank accounts. Receipts are either scanned or filed for record purposes. Emails are sent weekly with receipts and deposit amounts noted. She then moves the funds into a consolidated bank account for monitoring and submission to the Treasurer of State.

Maurice Bryant, Department of Rehabilitation and Corrections

Mr. Bryant is a Financial Analyst Supervisor with the Ohio Department of Rehabilitation and Corrections (ODRC). He discussed with us the agencies process transformation, problems they had, and their results.

According to Mr. Bryant, checks were not processing within OAC guides lines. Checks were typically placed, for security reasons, into safes where they were held for weeks. In some examples, they were held 25-45 days. Many of their problems include the volume of checks on a daily and weekly occurrence. ODRC processes on average 600 checks in a week, sometimes 50-75 checks per day. Identifiable checks are held, packed and then delivered to the Central Office. This involves removing individuals from their office duties to deliver checks to the Central Office. Unidentifiable checks are held for identification. This requires research and consulting with other departments for check identification. Trips to the Treasurer of State can occur once or twice daily. Travel times vary. Some checks are lost in the process, or are misplaced which cause more delays.

ODRC receives revenue from institutions, state funds, and private funds. Ohio Penal Industries (OPI), a division of ODRC, supplies goods that are procured through state agencies and private industry. A large part of ODRC revenue comes from OPI sales and institution commissary sales.

The benefits ODRC has experienced since implementing their scanning process includes: less travel time and parking expenses for delivery to downtown Columbus, reduction of man hours away from the office, less fraud, and abuse. The system reviews each scanned check deposit. Check submission errors immediately alert staff prior to the deposit so that corrections can be made and issues resolved quickly.

Challenges are minimal, according to Mr. Bryant. Minor setbacks include staff training and staff acceptance. Once these two hurdles are secured the scanning process is fundamentally superior to manual processing.

Mr. Bryant provided a few recommendations that could aid with the implementation of the electronic scanning processing:

“DAS bid a contract for agencies to purchase one scanner per agency. This could greatly reduce costs. Agency has a pilot group and work through bottlenecks and any other issues that may be present for the agency. Once this pilot is deemed successful, the process should be rolled out to all other remote locations. All agencies department wide and state wide could now be compliant to the OAC. Currently these remote locations are not audited. Thousands of dollars are stale dated on a daily basis. This process could greatly improve this issue. Cash flow is just sitting in a desk, not able to pay bills and/or earn interest on cash. Agencies hesitant on implementing this process should review agencies who have successfully adopted this process.”

Matt Them, State Highway Patrol

Mr. Them stated they were having difficulty complying with the three day requirement for revenue received at the highway post locations around the state. The old process was for the post to receive the checks and interoffice them to their central fiscal office. This could take one to two weeks. The staff noticed there was an issue prior to the Auditor identifying the issue. They were processing about 30-40 checks per day. There are a total of 58 post locations around the state of Ohio. According to Mr. Them, below are the steps their agency took to implement the new check scanning process.

“We deployed check scanners at all of the post locations and set up a sub account with Key Bank where the funds would be immediately credited when the posts scanned the checks. We had to rewrite policies and procedures and update revenue forms to accommodate the new process as well as onboard each post location and train staff at the posts individually. Finally, we trained primary and backup staff in central office on the updated procedures.”

State Patrol receives various types of check revenue including court fines, witness fees, patrol car use reimbursement, and crime lab fees. They very rarely receive revenue in cash. Below are a few comments Mr. Them made regarding the newly implemented process of electronic scanning of check revenue.

- This process reduced our turnaround time from weeks to one to two days. It reduced the possibility of lost or stolen checks during transport, made the process more efficient, and we have not had any audit findings since implementation.
- The State Highway Patrol has had to update procedures and implementation standards at each location, which reduced repetitive work flows, and resulted in adding staff to the revenue processing sections.

Lea Ann Lozier-Allen, Department of Commerce

Upon interviewing Mrs. Lozier-Allen she informed us that they receive revenue at several offsite locations: Fire Marshall, Real Estate, Financial Institutions, Unclaimed Funds divisions. Their agency currently has issues complying with the three day rule due to the volume of checks received, having to post the revenue in their database first, and also they hold on to the checks until the entire permit process is complete. All of these issues delays the revenue check process. At this time they do not have any remote desktop scanners at their remote locations, they do however have one scanner at their central office. According to Mrs. Lozier-Allen their central office handles all of the check depositing, they would prefer their central office to reconcile and check for any major errors before checks are deposited. They have received positive feedback from the Treasurer of State that the one scanner they have at central office has improved turnaround time into the bank. The Treasurer prefers that method because they don't have to handle physical checks. The Department of Commerce recommended that agencies use online payments wherever possible, this would cut out the need of a desktop scanner in many cases and reduce the delay in check revenue processing.

On a positive note, Mrs. Lozier-Allen added that they have not had any findings in an audit but they do get annual recommendations from the Auditor of State regarding the three day rule.

Department of Agriculture

A few years ago, the Department of Agriculture was receiving audit findings for untimely deposits. The days late ranged from one to 13 days late with an average of eight business days. According to the Department of Agriculture, some of the lag time for check processing include:

- Checks waiting to be opened, processed, and deposited
- People waiting on a manager sign-off
- Mail person waiting on checks to be processed so he can drive 36 minutes downtown to hand deliver checks, when he could be using his time in a more meaningful way
- Walking checks from downstairs (opener) to safe –then the safe to the licensure processing office
- Mail (in general) from customer to ODA, mail transported from admin building to plant health
- Hand delivering checks for deposit to Ohio Treasurer's Office from Reynoldsburg daily
- Letters opened with checks, waiting to be processed, sitting in the safe
- Processors must walk to safe to get checks and walk back to their desk –they must then walk back to safe at the end of the day
- Correcting scanned forms (only 80% of information picked up –must be corrected by hand)

The Ohio Department of Agriculture did extensive research on their check deposit capability. They decided to document their deposits. A build data collection form was created to collect data. They realized that it “took many business days to get all of the checks processed.” ODA's internal check deposit process was noted as extremely complex when they realized seven groups or individuals were required to touch the process from beginning to end.

Kelly Salomone, Office of Budget and Management

One of the Office of Budget and Management's Internal Audit Section Chiefs said multiple agencies experience findings related to timeliness of deposits. Ms. Salomone works in the Office of Internal Audit (OIA). She explained the two areas where OIA is able to see if an agency has had this issue: 1) through their OIA audit projects, if they happened to look at a revenue-generating process, they would test for timeliness of deposit; or 2) through Auditor of State (AOS) audits, where they would look at revenue-related processes if it was a material process.

For OIA-conducted audits, they looked through the FY17 audits, as well as any FY18 audits they have reported on to date, and through that, they've only had findings related to timeliness of deposit for three agencies.

For the AOS audits, they looked back at the AOS management letter reports issued during the FY15 – FY17 period (some smaller boards/commissions have a 2yr. audit cycle, so the last

audit report issued may have been in FY16 covering FY15 & FY16). Through this review, it appears there have been 14 agencies that have had findings related to timeliness of deposit.

So, in total, it appears there are 17 agencies that have had a timeliness of deposit issue noted, in an audit, in the past three years. As a caveat, this doesn't mean the issue doesn't exist in more agencies, it may just be that the revenue processes at those agencies have not been looked at.

These issues are visible concerns for State agencies processing check revenue. Not only is there a technological ineffectiveness, the human factor is present as well. Lack of communication is a major source of problems. Even departments within agencies have varying definitions for commonly used words.

During our research, we discovered a few agencies recently implemented their own version of scanning checks to the TOS. During their own audit findings, these agencies were able to identify requirements needed to strengthen their own internal controls improving business processes for revenue deposits.

CONCLUSION

The three-day rule in OAC 113-1-02 presents a significant challenge for most state agencies, specifically ones that receive checks at remote locations. The Legislature should evaluate the requirement and consider a more reasonable time period that will account for the variety of state agencies, and ways that those agencies receive revenue. However, if the rule is not changed, electronic scanning of checks provides a common sense solution to remain compliant in many circumstances. Each agency will have its own unique challenges and opportunities to use this technology. Policies, procedures, and forms will need to be updated, which will require some time and energy at the start, but the result will be improved efficiency, compliance with the three day rule, fewer lost/stolen checks, and improved cash flow for the state.


Our research revealed that many state agencies utilize electronic scanning of checks at a central fiscal office, however, of the agencies interviewed only one was using the scanners at remote locations. Scanning at remote locations provides the greatest efficiency, cost savings, and reduced audit findings. Remote scanning is relatively simple process which is currently being underutilized.

RECOMMENDATIONS

- Utilize remote deposit scanning process at all possible locations
- Department of Administrative Services obtain a state term contract for check scanners
- Extend the requirement to 5 days to provide agencies adequate time to process revenue

Electronic Submission of State Revenue

Next Steps

- 
- Obtain approval from Treasurer of State to open a sub account with Key Bank
 - Update policies, procedures, and forms to reflect the scanning process
 - Purchase Key Bank approved scanners
 - Create a group email account to receive documentation for the electronically submitted check
 - Identify test locations to implement a soft roll out
 - Onboard and train locations via conference call with Key Bank, IT and Fiscal staff

REFERENCES

Bryant, Maurice. Financial Analyst Supervisor, Department of Rehabilitation and Corrections. Personal Interview. May 24, 2018.

FINSource SAFE Manual>Revenue.

http://finsource.ohio.gov/#mergedProjects/safe_manual/welcome_to_the_safe_manual.htm.

Document. June 8, 2018.

Lawriter Ohio Administrative Code. <http://codes.gov/oac/113-1-02v1>. Document. February 27, 2018.

Lozier-Allen, Lea Ann. Financial Manager, Commerce. Personal Interview. June 8, 2018.

Office of Internal Audit, Office of Budget and Management. Department of Agriculture – Plants & Pesticides Audit (Final report). Document. June 29, 2017.

Salomone, Kelly. Internal Audit Section Chief, Office of Budget and Management. “Re: Fiscal Academy Capstone Project – Information Requested.” Message to Matt Them and Amber Griffith. March 22, 2018. Email.

Smith, Amy. Fiscal Analyst, Department of Natural Resources. Personal Interview. May 22, 2018.

Them, Matt. Staff Lieutenant, Ohio State Highway Patrol. Personal Interview. June 8, 2018.