



OFFICE OF THE DISTRICT OF COLUMBIA AUDITOR

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**Letter Report: Advisory Neighborhood Commission 7D
Unauthorized Check Activity**

March 24, 2006



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Commissioner Dorothy Douglas
Chairperson
Advisory Neighborhood Commission 7D
4410 Minnesota Avenue, NE
Washington, D.C. 20019

Letter Report: Advisory Neighborhood Commission 7D Unauthorized Check Activity

Dear Chairperson Douglas:

Pursuant to Section 16 (d) of the Advisory Neighborhood Commissions Act of 1975 (ANC Act),¹ as amended, the District of Columbia Auditor (Auditor) conducted an audit of the financial operations and activities of Advisory Neighborhood Commission (“ANC or Commission”) 7D as they specifically relate to reported allegations of unauthorized check activity.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether:

1. disbursements complied with the ANC Act, ANC Financial Management Guidelines issued by the Office of the District of Columbia Auditor,² and legal opinions issued by the Office of the Attorney General (OAG); and
2. internal controls were adequate to ensure that the ANC’s assets were properly safeguarded.

¹ See the Advisory Neighborhood Commissions Act of 1975, as amended (effective October 10, 1975, D.C. Law I-21), by the Comprehensive Advisory Neighborhood Commissions Reform Amendment Act of 2000, (effective June 27, 2000, D.C. Law 13-135), D.C. Code § 1-309.13 (d) (2004 Supp.)

² Office of the District of Columbia Auditor, “*Advisory Neighborhood Commission Financial Management Guidelines*” (ANC Guidelines), January 2003.

The audit covered the period March 1, 2005 through January 27, 2006. In conducting the audit, the Auditor met with you, and reviewed all available cancelled checks, bank statements, bank signature cards, quarterly financial reports, meeting minutes, and other documents relevant to this matter.

BACKGROUND

On January 27, 2006, ANC 7D's Chairperson, Commissioner Dorothy Douglas, notified the Auditor of an apparent misappropriation of ANC 7D funds by the Commission's Treasurer, Mr. Michael D. Creasey.³ Commissioner Douglas was alerted to possible unauthorized check writing activity when ANC 7D's staff person informed her that an ANC 7D check issued for his salary was returned due to insufficient funds in the Commission's checking account.⁴ Copies of ANC 7D cancelled checks and bank statements for the period July 29, 2005 to January 29, 2006 were obtained by the Chairperson from the bank at which the ANC maintained its checking account.⁵ Chairperson Douglas provided the Auditor with copies of these cancelled checks and bank statements on January 31, 2006 and February 1, 2006. The copies of the cancelled checks provided by Commissioner Douglas each bore the signature of Commissioner Creasey and the majority of the cancelled checks totaling \$49,800 were written to this individual.⁶

Commissioner Douglas also provided the Auditor, on February 1, 2006, copies of ANC 7D letters to the Office of the Attorney General (OAG) and the Office of Advisory Neighborhood Commissions informing them of the apparent misappropriation of ANC 7D funds. In addition, the Auditor was provided a copy of a police report filed by the Chairperson with the Metropolitan Police Department (MPD).

³Mr. Creasey is still a Commissioner, however, he was removed as Treasurer of ANC 7D at a February 14, 2006 public meeting.

⁴Prior to the Auditor's notification on January 27, 2006, the last quarterly report filed by ANC 7D, (for quarter ending June 30, 2005 and received by the Auditor October 25, 2005) indicated a checking account balance of \$61,697.64. Copies of bank statements submitted with this quarterly report also indicated a checking account balance of \$61,697.64, as of June 9, 2005.

⁵Effective January 31, 2006, ANC 7D's Chairperson closed this account.

⁶Although the checks also bore the *alleged* signature of the ANC's Chairperson, Chairperson Douglas indicated to the Auditor that she did not sign the unauthorized checks in question.

STATEMENT OF ANC 7D's CHECKING AND SAVINGS ACCOUNT BALANCES AS OF MARCH 1, 2005 AND JANUARY 27, 2006

Tables I and II present ANC 7D's checking account balance as of March 1, 2005 and January 27, 2006, respectively.

Table I
ANC 7D's Checking and Savings Account Balances
As of March 1, 2005

Checking Account	\$ 70,230.42
Savings Account	<u>0.00⁷</u>
Actual Cash Balance	\$ 70,230.42

Source: ANC 7D's bank statements as of March 1, 2005.

Table II
ANC 7D's Checking and Savings Account Balances⁸
As of January 27, 2006

Checking Account	\$ 48.63
Savings Account	<u>0.00⁹</u>
Actual Cash Balance	\$ 48.63

Source: ANC 7D's bank statements as of January 31, 2006.

⁷ ANC 7D did not maintain a separate savings account.

⁸ Effective January 31, 2006 ANC 7D's Chairperson closed this account.

⁹ ANC 7D did not maintain a separate savings account.

FINDINGS

ANC 7D'S TREASURER MAINTAINED CUSTODY OF THE COMMISSION'S CHECKBOOK, MONTHLY BANK STATEMENTS, AND CANCELLED CHECKS THAT DEPRIVED THE COMMISSION OF PERFORMING INDEPENDENT VERIFICATIONS AND CONTRIBUTED TO THE UNAUTHORIZED ISSUANCE OF ANC 7D CHECKS TOTALING \$49,800

The Auditor has established specific guidelines, or best practices regarding the separation of duties to assist ANCs in ensuring that ANC assets are properly accounted for and safeguarded. Specifically regarding the custody of checks, bank statements and cancelled checks, the Auditor has recommended in Guideline 20 that:

Duties related to financial accounting and reporting should be assigned to different Commissioners. For example, if the Treasurer controls the checkbook, a different Commissioner, such as a financial secretary, should receive the bank statement and canceled checks, and perform a verification within 5 days of receipt of the bank statement. After independent inspection and validation of bank transactions for the month, the bank statement and cancelled checks should be turned over to the Treasurer to prepare the ANC's quarterly financial report. The ANC's bank statement and canceled checks should be mailed by the bank directly to the secretary on a monthly basis.¹⁰

The Auditor's analysis of ANC 7D's cancelled checks for the period March 1, 2005 through January 27, 2006 indicate that the Treasurer, without the ANC's knowledge or authorization, wrote and signed sixty-six (66) checks made payable to himself, totaling \$49,800. The Auditor found that ANC 7D's Treasurer maintained custody of the ANC's checkbook. Additionally, contrary to the Auditor's recommendation, the monthly bank statements and cancelled checks were sent to his residence and were not available for review and scrutiny by other Commissioners. Chairperson Douglas indicated to the Auditor that on March 9, 2005, she sent a letter to the bank at which the ANC maintains its checking account requesting that the bank statement address be changed to that of another Commission officer rather than the Treasurer's address. This written request was apparently not fulfilled by the bank.

¹⁰See ANC Guidelines.

As a result of the breakdown in internal controls, no independent verifications were conducted by a different Commissioner as recommended. This practice allowed the Treasurer to write checks without the ANC's knowledge or authorization and to conceal this activity until virtually all of the ANC's funds had been misappropriated.¹¹ If monthly bank statements had been received and verified by a Commissioner other than the Treasurer, the unauthorized check writing activity could have been promptly discovered and appropriate and expeditious corrective action could have been initiated.

RECOMMENDATIONS

1. ANC 7D take necessary and immediate steps to ensure that in the future all ANC 7D checks and monthly bank statements and cancelled checks are mailed to a Commissioner other than the Treasurer. If this procedure cannot be accommodated by ANC 7D's bank, ANC 7D's Chairperson should bring this to the immediate attention of the Auditor so that assistance can be provided in securing this safeguarding procedure.
2. ANC 7D ensure that the Commissioner authorized to receive bank statements and cancelled checks perform a verification within 5 days of receipt of these financial documents.

ANC 7D's FAILURE TO COMPLY WITH QUARTERLY REPORT FILING DEADLINES DENIED THE AUDITOR'S OFFICE THE OPPORTUNITY TO REVIEW ANC EXPENDITURES AND DETECT FINANCIAL IMPROPRIETIES TIMELY

Section 1-309.13 (j) (1) of the D.C. Code states, in relevant part, that:

The treasurer of a Commission shall prepare a quarterly financial report on a form provided by the Auditor A copy of the approved financial report, signed by the Chairperson, the secretary, and the treasurer, shall be filed, along with a record of the vote adopting the report, with the Auditor within 15 days of approval. Each quarterly report shall include copies of canceled checks, bank statements, grant request letters and grant

¹¹D.C. Code § 1-309.13 (f) states, in relevant part, that: "No expenditure of any amount shall be made without the specific authorization of the Commission. *Any expenditure made by check shall be signed by at least 2 officers of the Commission, one of whom shall be the treasurer or Chairperson. . . .*" [Auditor's Emphasis]

disbursements, invoices and receipts, executed contracts, details about all contributions received during the time period covered by the quarterly report, the minutes of all meetings indicating the Commission's approval of disbursements during the time period covered by the quarterly report, and certification of the Commission's approval of the quarterly report signed by the Commission's Secretary.

During the review period of March 1, 2005 through January 27, 2006, ANC 7D did not file two quarterly financial reports on or before their due dates. As of January 31, 2006, one past due report had not been submitted to the Auditor as required by the ANC Act.

Failure to comply with quarterly report filing deadlines deprives the Auditor of sufficient opportunity to promptly review ANC expenditures, timely detect improprieties, and institute appropriate actions. Such actions may include freezing an ANC's bank account or requiring relinquishment of the ANC's checkbook.

Although the ANC's Treasurer is ultimately responsible for filing the ANC's quarterly financial reports, the reports require the review and approval of the Commission and the signatures of the ANC's Treasurer, Chairperson, and Secretary. As such, all bear responsibility to ensure that this requirement is met or that timely notification to the Auditor is initiated if impediments, beyond their control, prevent the timely filing of these reports.

RECOMMENDATION

1. ANC 7D's Treasurer prepare and file complete, accurate, and timely quarterly financial reports with the Office of the District of Columbia Auditor as required by the ANC Act.
2. All ANC 7D Commissioners familiarize themselves with quarterly financial report due dates, the ANC Act in general, and the Auditor's Financial Management Guidelines to ensure that the Commission timely files accurate and complete quarterly reports.

CONCLUSION

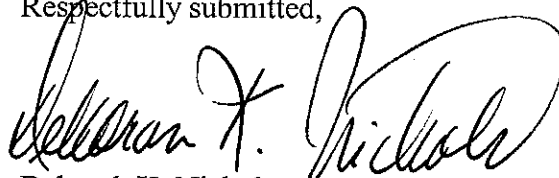
The Auditor is required by the ANC Act to monitor the financial activities and operations of the District government's 37 Advisory Neighborhood Commissions. Over the years, the Auditor has found numerous instances of misappropriation of funds, illegal and criminal activity relating to the financial operations of ANCs. The Auditor's review of ANC 7D's financial operations and activities revealed critical flaws in its internal accounting controls that resulted in \$48,900 in improper disbursements from the ANC's checking account. With the help of the Commissions' officers, early detection of these irregularities could have prevented this from occurring.

As a result of our review, the Auditor has referred this matter to the Office of the Inspector General for further investigation.¹² In addition to the referral to the OIG, the Auditor has also been notified that this matter is currently under review by the OAG's Civil Enforcement Section.

In summary, ANC 7D must make substantial improvements in its internal control environment and internal controls must be strengthened and strictly adhered to in order to ensure that the ANC's assets are properly used and safeguarded.

Pursuant to D.C. Code Section 1-309.13 (d) (3), ANC 7D must respond in writing to each of the violations detailed herein within 90 days. Failure to do so will result in the forfeiture of ANC 7D's next scheduled quarterly allotment until a response is filed.

Respectfully submitted,



Deborah K. Nichols

District of Columbia Auditor

¹² See Letter dated February 24, 2006, from Deborah K. Nichols, District of Columbia Auditor, to Charles J. Willoughby, District of Columbia Inspector General.