



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: June 14, 2011

TO: Jim Gray, Mayor

CC: Richard Moloney, Chief Administrative Officer
Jamshid Baradaran, Acting Commissioner of General Services
Jane Driskell, Commissioner of Finance & Administration
Jerry Hancock, Parks and Recreation Director
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Extended School Program Collections & Disbursements Review

Background

On May 31, 2007, the Office of Internal Audit issued an audit report on the Extended School Program (ESP) Collections & Disbursements Review. The report contained several significant findings related to the collection and depositing of ESP funds and the disbursement of those funds. This review was conducted to evaluate controls put in place by management to address those specific findings from the May 31, 2007 report as summarized below.

- Accounts Receivable were unable to be tested
- ESP account reports were not available to management
- Late deposit activity

- Expenditures charged to the wrong site
- Controls for approval of scholarships needed to be enhanced
- Collections were being taken home by ESP personnel

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Accounts Receivables balances were reasonable and collection on past due accounts action were appropriately pursued
- Cash collections were appropriately safeguarded and deposited in a timely manner
- Scholarships (which reduce or waive customer fees) were appropriate and supported by sufficient documentation
- Expenditures were properly allocated to the sites receiving the benefits
- Other control deficiencies identified in the prior audit have been addressed

The period of review for our audit included transactions occurring during fiscal year 2010.

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1. Deposit Procedure Violations Noted

Priority Rating: High

Condition:

ESP deposit procedures state that ESP funds collected at the school sites must be submitted to ESP management at the Dunbar Center twice per week for processing and deposit. A review of collection reporting at the ESP sites indicates some locations are holding funds and related support for several days, in violation of ESP Deposit Procedures.

Effect:

Late deposits are a violation of deposit procedures, and unnecessarily expose cash and checks to the possibility of loss or theft. Timely deposits of collections are particularly important during difficult budget years.

Recommendation:

CAO Policy #40 (Policy & Procedure for Cash & Check Handling) supersedes any Division or Department deposit procedures. Per CAO Policy #40, all funds received by Departments and Divisions should be immediately endorsed and presented to the Revenue front counter within one business day of receipt for locations in the downtown campus and within two business days for the outlying locations as stipulated in the new Cash & Check Handling Policy. ESP collection processes should be adapted to comply with CAO Policy #40. Such compliance is particularly important during a difficult budget year.

Director of Parks and Recreation Response:

In accordance with CAO policy #40, ESP deposits will be made within the 48 hour time period. ESP is unique in that they use a remote check scanner to perform deposits. Checks are automatically scanned directly to the bank digitally for deposit. Checks will not need to be taken to the Division of Revenue.

Remote locations will continue to be required to make deposits twice weekly either before normal business hours or after using the new locking night deposit box. Additionally, a courier schedule has been developed to make deposit pickups on the other days of the week. The remote check scanner will be used 3 times a week to make deposits directly to the bank from the administrative office, thus ensuring all checks are deposited within 2 business days.

Acting Commissioner of General Services Response:

I concur with the Director's recommendations as noted above.

Finding #2: ESP Collection & Reporting Issues

Priority Rating: High

Condition:

Collection activity at the 16 ESP Sites is reported to ESP personnel at the Dunbar location for posting to the PeopleSoft financials. We compared three months of cash and check collection activity per the ESP Sites to collection activity reported in PeopleSoft and noted variances between ESP Site reported collections and the collections posted to PeopleSoft for eight of the 16 Sites, with net variances ranging from \$8 to \$978. Although the exact cause of some of the variances was not clearly evident, some appeared to be the result of ESP Site personnel including cash in reported check collections. An undated ESP Policy specifically states that ESP Sites are not to accept cash. As noted in Finding #1, ESP Sites sometimes hold funds and related support for several days before providing them to the Dunbar location for processing.

ESP credit card payments can only be processed at the Dunbar location. We compared three months of credit card collection activity per the original support to credit card collection activity reported in PeopleSoft and noted variances between original support and reported credit card activity for 10 of the 16 Sites, with net variances ranging from \$30 to \$3,434. The variances appeared to be impacted by the fact that although credit card collection activity occurs fairly frequently at Dunbar, such activity is only settled with the credit card terminal an average of every 15.5 days. The closeout dates appear to approximate the dates when collections are posted to PeopleSoft, resulting in daily variances between original support and postings to PeopleSoft.

Effect:

Although we found no substantive evidence of misappropriated funds, poor recordkeeping, late deposits, and delayed settling of credit card transactions can conceal the misappropriation of funds and impede management's ability to detect and correct such activity. In addition, holding deposits and failing to close out credit card collections on a timely basis delays the availability of these funds for LFUCG's use, an issue that is particularly important to address during a difficult budget year.

Recommendation:

Training should be provided to ESP Site personnel to ensure accurate reporting of collection activity. Collected funds and related support should be provided to the Dunbar location on a daily basis in order to assure compliance with the deposit requirements of CAO Policy #40. Credit card terminals should be settled daily and the transmittal advice submitted to the Division of Revenue as also required by CAO Policy #40. A procedure should also be developed to reconcile collections reported on ESP Site source documents and collections posted to PeopleSoft and investigate any variances. This duty should be assigned to an individual having no ESP collection or financial posting responsibilities.

Director of Parks and Recreation Response:

As of June 15, 2011, Credit Card payments will be reconciled daily and reported in PeopleSoft. The report will reflect payment made at each particular site. This will allow a staff person to reconcile the deposit amount in PeopleSoft back to the ledger system and Procare software.

A daily Procare Deposit Slip will also be printed to ensure that all deposits match and have been credited to the proper family and school in the ProCare system.

The Credit Card terminal will be settled daily to comply with CAO Policy #40. ESP Administration has scheduled individual refresher training the week of July 5, 2011 to ensure that no cash is accepted on site and review the deposit and reporting procedure.

Acting Commissioner of General Services Response:

I concur with the Director's recommendations as noted above.

Finding #3. Scholarship Approval Process Inconsistent**Priority Rating: High****Condition:**

We examined a random sample of 25 ESP scholarship requests and noted that 11 requests (44%) had no indication of review or approval by ESP Management. In each exception, participants were eligible for and received scholarships based on the accompanying documentation. This was also a finding in the May 2007 ESP Review.

Effect:

Scholarship requests that are processed without management oversight and approval increase the risk of incorrect or unauthorized scholarships.

Recommendation:

The procedure for obtaining management oversight and approval of scholarships prior to processing should be reviewed with appropriate ESP personnel to ensure consistent compliance.

Director of Parks and Recreation Response:

Effective June 1, 2011, all scholarship requests are reviewed and approved or disapproved at the District Director level. District Directors will be required to accumulate the required documentation and then be sure to sign off on the decision to approve or deny. Proper documentation shall be kept on file in the administrative offices for no less than 5 years per ESP state licensing requirements.

Quarterly reviews of scholarship requests will be performed by the ESP administrative assistant to ensure future compliance.

Acting Commissioner of General Services Response:

I concur with the Director's recommendations as noted above.

Finding #4: ProCare Accounts Receivable Weaknesses Identified

Priority Rating: High

Condition:

Our review of the ESP Accounts Receivable process identified several internal control weaknesses, including 1) no report exists in ProCare that matches to daily deposits, 2) deposits are not reconciled to ProCare Accounts Receivable, 3) the employee responsible for processing Accounts Receivable can change payment criteria or edit payment activity and no exception reports are generated (including Account write-offs), and 4) ProCare does not generate an Accounts Receivable Aging Report.

Effect:

The control weaknesses identified above present the opportunity for errors and irregularities in the Accounts Receivable process to go undetected by management.

Recommendation:

ESP management should pursue the development of ProCare reports of daily deposit activity and an Accounts Receivable Aging Report to enhance management review of account activity. ESP management should also pursue the development of account activity exception reports, including a specific report of account write-offs should they occur. A process should also be developed whereby collection activity per deposits and entries into PeopleSoft are reconciled to the ProCare accounts by an employee having no ProCare account entry or editing responsibilities.

Director of Parks and Recreation Response

As indicated in response to finding #2, a deposit slip generated by the Procure software will be generated that can then be used to verify that each site's deposit was recorded properly in the system and matches the site's records. This report will also be used to match against the PeopleSoft deposit verification to ensure accurate accounting.

With a recent software upgrade to the Procure system, an aging report was included that will now be run monthly to identify past due accounts by amount and length of balance. This report will be used to identify which accounts can be turned over to the Law Dept. and which accounts will be removed from the program and not allowed re-entry until payment of balance. Delinquent accounts over \$100 and past 90 days will be sent to the Law Department for collections. Delinquent accounts under \$100 and past 90 days will be removed from the program and will not be reactivated until the outstanding balance is paid.

Acting Commissioner of General Services Response:

I concur with the Director's recommendations as noted above.

Finding #5. Written Procedures Needed for Accounts Receivable Function
Priority Rating: High

Condition:

There are no written procedures regarding the ESP Accounts Receivable function.

Effect:

Written procedures are an important control that provides process instruction, performance standards, and a basis for measuring compliance with management expectations.

Recommendation:

ESP should develop written procedures for the Accounts Receivable function. Included in these procedures should be separation of the duties of receiving payments and updating accounts from the duties of account write-offs, the issuance of late notices, and the submittal of past due accounts to Law for collection. The procedures should also require past due accounts be evaluated by an employee with no responsibility for receiving payments or updating the accounts. Collections should also first be verified by an employee with no responsibility to update customer accounts, and this employee should also provide assurance that the amount deposited matches the verified collection.

Director of Parks and Recreation Response:

Written procedures are being revised which will coincide with CAO Policy #40. These procedures will do a better job describing the separation of duties and deposit schedule described in several places above. Procedures for verification of deposit and account activity are done at several different levels.

We anticipate this procedure to be completed by July 1, 2011 and training will be held with Site Directors and office staff to familiarize them with any new policy and procedures. Signatures of all attendees will be required to ensure that all employees have read and agree to this new procedure.

These new written procedures will be completed and dispersed to all relevant staff in time to take effect for the 2011-2012 school year upcoming or August 1, 2011.

Acting Commissioner of General Services Response:

I concur with the Director's recommendations as noted above.