



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **INTERNAL AUDIT REPORT**

DATE: May 2, 2012

TO: Jim Gray, Mayor

CC: Richard Moloney, CAO  
Janet Graham, Commissioner of Law  
Jane Driskell, Commissioner of Finance & Administration  
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: Law Collections Process Follow-up Review

### **Background**

The Department of Law is responsible for pursuing collections on delinquent accounts and various unpaid fines due to LFUCG, including payments related to Bankruptcy Distributions, Hotel / Motel Fees, Occupational License Fees, Weed Liens, etc. Debtors are typically instructed to mail related payments directly to the Department of Law, where the collection activity is administered by several employees, with the primary responsibility for posting payments to a database being assigned to one paralegal. These payments received by the Department of Law are subsequently delivered to the Division of Revenue's Counter Collections office by Department of Law personnel. The Department of Law is also responsible for placing liens upon the properties of unpaid accounts, or in some cases for the filing of lawsuits against parties responsible for unpaid accounts. For calendar year 2011, the Department of Law reported collections totaling \$2,096,763 received from delinquencies or fines.

## **Scope and Objectives**

The general control objectives of the audit were to determine that:

- The overall collection process is efficient
- Management oversight of the various collection activities is adequate
- Collection transactions are supported in the Department of Law files and accurately recorded in the accounting records
- Delinquent accounts are properly managed
- Findings identified in the June 2006 audit of this process have been properly addressed.

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.

The scope of our audit included collection activity for calendar year 2010 and 2011.

## **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. An opportunity to enhance controls is 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 FINDINGS**

### **Segregation of Duties Issue**

**Priority Rating: High**

#### **Condition:**

The collection, deposit, and account update functions are not properly segregated to prevent one individual from performing all of those duties. One paralegal may issue billings, collect the related funds, deposit the funds, and update the related accounts. In addition, collections received by the Department of Law are not logged by anyone separate from the collection process, which increases the risk associated with the segregation of duties issue since there is no independent verification of funds received. This issue was also reported in the June 2006 audit.

#### **Effect**

A key internal control element in a collections program is the segregation of duties to prevent any one person from being able to collect funds, deposit funds, and update the related accounts. When collections are not logged at the first point of receipt by someone independent of the collection process, funds may be lost and/or misappropriated.

#### **Recommendation**

The receipt, deposit, and account update functions for payments to the Department of Law should be separated to prevent one individual from performing all duties related to the billing and collection process. A mail log should be maintained by someone independent of the billings and collections process.

**Commissioner of Law Response:**

See the attached response on the next page.



Lexington-Fayette Urban County Government  
DEPARTMENT OF LAW

Jim Gray  
Mayor

Janet M. Graham  
Commissioner

TO: Bruce Sahli, Director of Internal Audits

FROM: Department of Law

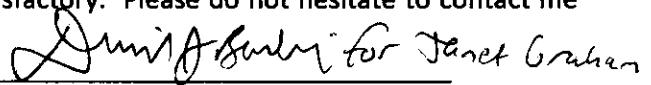
DATE: April 27, 2012

RE: Management Response to Internal audit of Department of Law Collections

Thank you for the opportunity to respond to the findings in the above audit. As you know, the Department of Law has been short-staffed in recent years, which has largely contributed to the "Segregation of Duties Issue" raised in the audit. Our action plan for addressing this issue will be as follows:

1. The Department of Law will establish a "mail log" at the first point of receipt of payment for collections matters. At a minimum, the entry on the log will include the following: (a) date, (b) amount of payment, (c) name of payor, (d) type of collection for which payment is made, and (e) check number or other identifiable means of payment.
2. The log will normally be maintained by personnel who are not otherwise responsible for other elements of collections matters if at all possible. If under certain limited circumstances such personnel are not available, someone who is not normally responsible for that type of collection matter will maintain the log.
3. In instances in which a debtor shows up at the Department of Law to make a payment, someone other than the paralegal working on that matter will additionally verify the amount and method of payment. This notation will be made as a separate entry in the mail log.
4. The mail log will be stored in manner that is readily accessible for review and will be maintained pursuant to the applicable records disposal policies.

We anticipate that the above action plan can be implemented by no later than the beginning of Fiscal Year 2013. I hope that you find this response to be satisfactory. Please do not hesitate to contact me with any questions.

  
Janet M. Graham  
Commissioner of Law