



Mayor Jim Newberry

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Division of Internal Audit

INTERNAL AUDIT REPORT

DATE: July 26, 2007

TO: Jim Newberry, Mayor

CC: Joe Kelly, Senior Advisor for Management
Marlene Helm, Commissioner of Social Services
Robynn Pease, Program Administrator
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Senior Citizens Center Audit

Background

The Lexington Senior Citizen's Center (SCC) is a multi-purpose facility providing services to persons 60 and older in Fayette County. Designed to provide a single entry point for various services, it houses several outside agencies serving the elderly community. In addition to LFUCG budgeted funding and federal and state grant funding, the SCC receives payments from various outside agencies operating programs at the SCC to reimburse for costs incurred by those programs (i.e., phone, fax, and copier charges). Collections may also be received for rental of space to private groups for various programs and events. The SCC also receives donations from private citizens and organizations to assist in the operation of the facility and its various programs. Expenditures at the SCC are primarily related to personnel costs, along with a fairly small operating budget.

Scope and Objectives

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

- Revenues are promptly deposited and correctly recorded in the accounting records
- Expenditures are properly authorized and made in accordance with established policies and procedures
- Approval and data entry functions over revenue and expenditures are appropriately segregated

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- Program income and donation funds are correctly recorded and maintained separately for grant matching purposes
- Appropriate permits and licenses are maintained to indemnify LFUCG from liability

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. 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.

SUMMARY OF AUDIT FINDINGS

Collection Duties Need to be Segregated

The SCC receives funds for senior citizen programs provided by the Division of Parks & Recreation, for program fees, for miscellaneous program expenses, parking lot rentals, cash donations, and occasionally for the Participants Council (a volunteer group providing services and having no affiliation with LFUCG programs or employees). Audit observations and inquiries established that funds received at the SCC are typically unsecured in the receipt book until the end of the day. Receipts for donations are not pre-numbered, and collections are not reconciled to the receipt book. The collection, recording, and deposit duties are all performed by the Staff Assistant Senior. While it does appear that there is limited activity in this account, on occasion checks exceeding \$500 and even \$1,000 have been received by the SCC. 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, record the collections, and deposit funds.

We recommend that all collections be secured in a desk drawer or similar method until they can be placed in SCC's safe for overnight security. Receipts should be pre-numbered to improve accountability and collections should be reconciled to the receipt book prior to deposit. Collections should be delivered to Revenue for deposit by an individual with no collection and recording duties, and SCC management should ensure deposit receipts obtained from Revenue agree with collection activity noted in the receipt book.

Commissioner of Social Services / Senior Citizen Center Management Response: As recommended, pre-numbered receipts will be provided for all deposits, and deposits will be secured in a desk drawer until they can be placed in the SCC's safe for greater security. Collections will be delivered to Revenue by SCC staff who have no collection and recording duties. SCC manager will periodically review Revenue deposit receipts with collection activity that is noted in the receipt book.

Late Deposits Noted

A review of Donation account deposits noted several instances where checks were delivered to the Division of Revenue several days or weeks after the check date. The SCC employee responsible for collecting donations stated she typically delivers funds to Revenue about once per month.

It is recommended donations and other funds received at SCC be delivered to Revenue for deposit on the next business day when it reaches a minimum amount to be established by management (e.g., \$100).

Commissioner of Social Services / Senior Citizen Center Management Response: Deposits of \$100.00 or more will be delivered to Revenue the following business day.

Written Procedures Should be Established

There are no written procedures addressing collection recording, reporting, security, or deposit activity. Written procedures are an important control that provides process instruction, performance standards, and a basis for measuring compliance with management expectations. It is recommended that written procedures for the collection process be established.

Commissioner of Social Services / Senior Citizen Center Management Response: SCC management will develop written procedures for the collection, recording, reporting, securing and deposit of revenue. Procedures will be written by August 30, 2007.

Late Payment of Invoices

Detail testing of expenditures noted five invoices that were paid significantly after 30 days. It is recommended management review invoice payment procedures with SCC personnel to ensure timely payment of invoices once properly approved.

Commissioner of Social Services / Senior Citizen Center Management Response: The SCC Manager and Staff Assistant Senior will review invoice payment procedures by August 30, 2007.

RISK OBSERVATION

Standards for the Professional Practice of Internal Audit stipulate that it is the Division of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a potential risk associated with the SCC that is not considered an audit finding, but which is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

Parking Lot Rental

The SCC is located next to the University of Kentucky football stadium. During football home games, the SCC earns a small amount of revenue for their Donation Account (\$7,500 in 2006) by renting out their parking spaces for public parking. It is recommended SCC management confer with the Department of Law and the Division of Risk Management to determine if any action needs to be taken to indemnify LFUCG from any liabilities that may otherwise be incurred through the charging of rental fees and the use of the facility's parking lot by the general public.

Commissioner of Social Services / Senior Citizen Center Management Response: SCC management is currently in consultation with the Department of Law and the Division of Risk Management on this matter.