



MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: October 30, 2017

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Rusty Cook, Director of Revenue
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teressa Gipson, CFE, Internal Auditor

RE: Revenue Counter Collections MAPPR

Background

On November 16, 2016, the Office of Internal Audit issued the Revenue Counter Collections Audit Report. The 2016 audit report contained several findings related to domestic relations bank account unclaimed funds; lack of compliance with CAO policy #40; lack of compliance with CAO policy #25; lack of voids oversight; NSF collections process improvement needed; and lack of timely reconciliations.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. The period of review included Revenue transactions from January 1, 2017 through August 31, 2017.



A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding	Summary of Original Finding	Follow-Up Results
Finding 1 High Priority	Domestic Relations Bank Account Unclaimed Funds	Revenue management stated they are in the first stages of working with Computer Services to obtain a population of persons with unclaimed funds to obtain their last known addresses. Once this process is complete, KRS guidelines requires Revenue to attempt to locate recipients of unclaimed property in written form not more than 120 days or less than 60 days prior to filing a report with the state. The Division of Revenue should continue its process to determine the rightful owners of the unclaimed funds as expeditiously as possible and, if necessary, submit funds to the Kentucky Treasury.
Finding 2 High Priority	Lack of Compliance with CAO Policy #40	Each front counter employee has a separate receipt book. Receipts are used in sequential order and monitored by the Revenue Supervisor. All employees performing collection activity have access to enQuesta with unique login capabilities for front counter collections. A receipt printer is now in use that automatically endorses customer checks and prints receipts. This finding has been resolved.



<p>Finding 3 High Priority</p>	<p>Lack of Compliance with CAO Policy #25</p>	<p>All employees performing collection activity have access to enQuesta with unique login capabilities for front counter collections. Cash is reconciled to the enQuesta system at the end of each shift through the cash register close process. This finding has been resolved.</p>
<p>Finding 4 High Priority</p>	<p>Lack of Voids Oversight</p>	<p>There appears to be sufficient control over “voids” in the enQuesta software program. Errors can be cleared prior to processing a receipt, or reversed once a transaction has been completed. Reversed entries are listed as negative transactions in the Cash Operator Transaction report in the daily closing process. When the daily reporting is closed, the correct entry is uploaded to the customer account. This finding has been resolved.</p>
<p>Finding 5 High Priority</p>	<p>NSF Collections Process Improvement Needed</p>	<p>Improvement is still needed in the timely issuance of the second collection letter. Revenue management stated that the \$10 NSF fee adequately covers NSF processing costs, and does not want to raise the NSF check fee because it would appear to be a revenue generator.</p>
<p>Finding 6 High Priority</p>	<p>Lack of Timely Reconciliations</p>	<p>Reconciliations were completed timely or were at a reasonable step in the recon process. Accounting indicated that the concentration account has been impacted by the go-live of the Springbrook and enQuesta Systems. Accounting is working with those system interfaces to eliminate the manual recon approach. This finding has been resolved.</p>



SUMMARY OF AUDIT FINDINGS

Original Finding #1: Domestic Relations Bank Account Unclaimed Funds

Priority Rating: High

Condition:

During review of the Domestic Relations Bank Account, we noted that a balance of \$336,630.45 existed as of June 30, 2016. As the average monthly amount received for domestic relations payments during 2016 was \$8,098, this large balance indicates many years of compounding from unsuccessful distribution attempts. This is a repeat finding from the 2010 Revenue Counter Collections Audit, at which time the balance was \$324,031.

Effect:

Domestic Relations payments are not being provided to the intended recipients.

Recommendation:

Every effort should be made to determine the rightful owner of all funds remaining in this account in coordination with the County Attorney, Kentucky Cabinet for Health and Family Services, the Kentucky Treasurer and any other parties who may be of assistance. The remaining unclaimed balance should be remitted to the State Treasury along with all supporting documentation to ensure full compliance with KRS 393.090.

Director of Revenue Response:

A significant portion of the balance in the account in question represents funds that belong to persons who have been unable to be contacted and delivered their funds. As a result, some funds now qualify as unclaimed property and should be turned over to the Kentucky State Treasurer and listed as such. The process for submission of unclaimed property is outlined by the state in the Kentucky Holder Reporting publication.

The review of the records will be updated and unsuccessful contact balances will be submitted to the Kentucky State Treasurer, per their annual process.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Revenue's response.



Follow-Up Detail Results:

The Revenue Supervisor stated that they are currently in the first stages of working with Computer Services to obtain a population of persons with unclaimed property (in this situation, unclaimed funds) to obtain their last known addresses. Once this process is complete, KRS guidelines requires Revenue to make attempts to locate recipients of unclaimed property in written form not more than 120 days or less than 60 days prior to filing the report with the state. The Division of Revenue should continue its process to determine the rightful owners of the unclaimed funds as expeditiously as possible and, if necessary, submit funds to the Kentucky Treasury.

Director of Revenue Response:

The Division concurs that this process should still take place. A meeting between the Revenue Supervisor in charge of this, the Revenue Director and members of IT has taken place to begin researching how to fix this. This is not a timely process as it takes months to complete and can only be filed with the Kentucky Treasury once a year. Our goal for this to happen is calendar year 2018 however it must be noted...this can be delayed due to any issues with research. There are multiple steps that have to be performed before any money can be sent to the state. The area working with IT is also responsible for the implementation of the PeopleSoft upgrade which has a July go live.

Commissioner of Finance & Administration Response:

I concur with the Director.

Original Finding #2: Lack of Compliance with CAO Policy #40

Priority Rating: High

Condition:

Our testing noted three different situations where CAO Policy #40 requirements were not being followed.

- There are two receipt books located at the front counter which are stored on the desks as opposed to being properly stored out of sight and in a secure location. A total of 103 receipts were missing. We also could not find proof of a monthly receipt book management review as required by CAO Policy #40.



- The two cash registers held at the front counter do not have a login system to monitor who is operating the register and accessing the tills throughout the day. While there are two full time employees who work the front counter, various Revenue employees fill in for breaks, lunches, and absences, and the absence of login/logout procedures means there is no audit trail identifying who completed the transactions.
- During a review of physical checks still held on site from the month of June 2016, we noted ten checks did not have restrictive endorsements on the back of the check. Six checks came from Revenue Compliance, two from Fire, one from Building Inspection, and one from Police.

Effect:

Failure to comply with CAO Policy #40 and other internal control processes creates the opportunity for lost or misappropriated funds.

Recommendation:

CAO Policy #40 requirements should be consistently complied with. Receipt books should be safely stored with copies of all receipts maintained in the book. A monthly supervisory review of the receipt book should be consistently conducted. The cash registers should be examined to determine if they have the ability to create a login/logout feature, and if so this feature should be activated to give each user a separate login. This is an important basic cash register control that creates accountability for funds within the register till. All checks should be immediately endorsed upon receipt by the Department or Division that received them, and a procedure should be established to ensure that no checks go to Chase Bank without proper endorsement. Revenue should also ensure that all Departments and Divisions within LFUCG that receive payments have and use a restrictive endorsement stamp.

Director of Revenue Response:

In response to Point 1 (Receipt Books): The Division of Revenue concurs with the recommendation that receipt books should be safely stored with copies of all receipts maintained in the book and a monthly supervisory review of the receipt book should be consistently conducted. We have established a new process where all receipt books are now stored out of sight and secured in a drawer. Each receipt book is assigned to the person responsible for the book's receipts and a checklist has been created to track the supervisor's monthly review. Any discrepancies or missing receipts will be documented and reported to the Director of Revenue.



In response to point 2 (Log in system for register): The Division of revenue recognizes the weaknesses regarding individual logins on the cash registers and the limitations of the aged system. We are exploring possible opportunities to address these weaknesses as the transition is being made to implement a new system, scheduled to begin in the spring of 2017.

In response to Point 3 (restrictive endorsements): The Division of Revenue concurs with Internal Audit that all checks should be immediately endorsed. The Division of Revenue takes CAO Policy 40 very seriously as we have a review of the policy every year and distribute a copy of the policy at that time and have the staff acknowledging they received it. All new hires are also provided a copy of the policy when they start and reviewed with them. In response to the audit, we had a discussion with the Division to once again emphasize that all checks that come in must be endorsed upon receipt. We have made sure that our staff has their own endorsement stamp should a check get to them without endorsement. As a final step, the person that scans the check to be deposit reviews the checks for the proper endorsement.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Revenue's response.

Chief Administrative Officer Response:

I concur. The CAO's Office will issue a reminder to all Commissioners and Directors to instruct their employees to consistently comply with this recommendation and all other aspects of CAO Policy #40.

Follow-Up Detail Results:

We performed a walkthrough and noted that each employee working the front counter had a separate receipt book. We noted the Revenue Supervisor tracks and monitors receipt books to ensure they are used in sequential order and to review any voided receipts. Receipt books are secured during the day in each cashier's desk and put in the safe after hours.

We also noted implementation of the enQuesta software and that new cash registers are now in use. All employees performing collection activity have access to enQuesta and have unique login capabilities for collecting revenue at the front counter.



Revenue has installed the TCM1000 receipt printer that is linked to their electronic cash drawer. When the cashier receives a check, it is fed through the receipt printer for an auto endorsement and it automatically generates a customer receipt.

This finding has been resolved.

Original Finding #3: Lack of Compliance with CAO Policy #25

Priority Rating: High

Condition:

During a review of Revenue's front counter operations, we witnessed a Revenue Supervisor retrieve a written computer password from an employee's desk drawer in order to login to that computer during the employee's absence and process revenue payments. Individuals who fill in for the regular front counter employees do not have separate logins or passwords for the front counter computers, which is required by CAO Policy #25. Passwords and login information should always be safeguarded and should never be written down.

Effect:

Failure to adhere to CAO Policy #25 creates the opportunity for unauthorized individuals to gain access to LFUCG data files and process transactions using another employee's logical access.

Recommendation:

All written passwords should be destroyed and all employees who have shared passwords should immediately change their passwords. All passwords should be confidential. Any employee who fills in for front counter duties should use separate login credentials when using the front counter computers.

Director of Revenue Response:

The Employees of the Division of Revenue do not share passwords throughout the Division and uphold CAO Policy #25. The infraction noted here involves the use of the computers/system at the front counter only which involve taking LEXserv payments. Due to the nature of the system (both Windows & billing system), using unique passwords for each person and maintaining the ability to balance the register drawers at the end of the day had been an issue. However, as of November 2016, the Division has worked with IT to set up the windows login system so that each person that fills in at the front counter while employees are on break will log into Windows with their own ID and



Password. The LEXserv Banner system has been set to continue to run in the background so that the employees covering can take payments and not result in an issue with the cash register. While this works and allows the Division to take payments at the front counter, the Banner system still will only operate on one ID and password.

At the end of each day, the cash register is reconciled with the LEXserv billing system to prevent theft or loss. Monthly statements/bills are sent to customers to show that their payments have been received and applied appropriately. The Division is implementing a new LEXserv billing system March 2017 and is pursuing controls to address the issues raised in Finding #3.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Revenue's response.

Follow-Up Detail Results:

As indicated in Finding #2 dispositions, Revenue has implemented enQuesta software along with new cash registers. All employees performing collection activity have access to enQuesta and have unique login capabilities for collecting revenue at the front counter. We also noted that cash is reconciled to the enQuesta system at the end of each shift through the cash register close process.

This finding has been resolved.

Original Finding #4: Lack of Voids Oversight

Priority Rating: High

Condition:

There is insufficient control over LEXserv voids. Under the current procedure, it is the responsibility of the employee creating a LEXserv void to take the voided receipt to a supervisor for review. If the employee fails to bring the receipt to a supervisor, the void will not be reviewed for appropriateness. Revenue management explained that this is not an issue with Domestic Relations payments, because only the supervisor can post a void to the Domestic Relations file in the Mainframe. Cash register tapes cannot be used to effectively review for voids because collections are not balanced against the cash registers. The cash registers are only used to secure cash and make change, and therefore the register tapes are not closed out or reviewed by management on a consistent basis. LEXserv collections are balanced by comparing collections to LEXserv entries in the



Banner System. This process would not identify theft of funds via fictitious voids because there would be no corresponding entry in the Banner System by which to identify missing funds, i.e. Banner System and the collections would balance. Under the current system, only a daily review of register tapes by management will guarantee all voids are identified.

Effect:

Lack of control over voids creates the risk of lost or misappropriated funds.

Recommendation:

Revenue management stated that the new enQuesta System should go live in March 2017. Revenue management should request that the enQuesta vendor include a process to identify voids on a daily basis. In the meantime, we recommend a process be developed to run a daily “Z” tape and review it for voids to ensure all are approved.

Director of Revenue Response:

The Division of Revenue has developed a new process running a daily “Z” tape in the current cash register system that will allow the Supervisor to review the “Z” tape for voids and the drawer reconciliation. This process is in the testing phase and is planned to go live by December 1. However, this process is independent of our billing system but will provide a report that shows what voids were entered into the cash register and allow a process to reconcile the voids.

Currently as a compensating control, the process is reconciled within the Banner system by verifying collections, by tender type, to the corresponding entries in Banner. Although the process would not identify a potential fictitious void, the likelihood of such is significantly minimized due to a receipt for the customer not being available unless the payment is recorded in Banner and the result of a fictitious void would be a disruption of service for the customer.

As was mentioned by Internal Audit, the Division will go live with a new billing system called enQuesta in March 2017. The system is being developed to allow a void process so that each void is tracked in the POS system built into the software. The Division is also working on new technology that will eliminate the cash register being separate from the billing system. This system will provide a void feature that would allow the Division to print a void report that will show all reversals for a day, a batch, period, etc.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Revenue’s response.



Follow-Up Detail Results:

We noted during our review that there is sufficient control over voids because the enQuesta system contains the following processes:

- If the cashier makes an error or the customer changes their mind about the payment prior to hitting the print receipt, then the cashier selects “No” on the Print Receipt option and uses the back arrow to clear the entry. The entry can then be restarted.
- If the cashier has completed a transaction by printing a receipt and then realizes an error has occurred, or if the customer wants to change something, the cashier selects Reverse Cash Transaction in enQuesta and scrolls to the transaction they want to correct. The system allows correction of the transaction and prints a receipt. Another receipt showing the correct information will be generated.

During the daily close process, the reverse transaction process does not show up as a “void” but the transaction does show as a negative amount on the Cash Operator Transaction report. When the daily reporting is closed, the transaction will show the net results and the correct entry will be uploaded to the customer account.

This finding has been resolved.

Original Finding #5: NSF Collections Process Improvement Needed

Priority Rating: High

Condition:

When a check is identified by the bank as being NSF (Not Sufficient Funds), Revenue sends a collection letter to the customer informing them of the NSF check and requesting payment. If there is no response, a second collection letter is to be sent ten days later. If there is still no response, the NSF check is turned over to the County Attorney for legal action.

NSF check letters are tracked on a spreadsheet. Some account information was incomplete; however, for those accounts with NSF checks that contained sufficient transaction documentation, we noted that the second letter rarely went out within ten days as required by procedure. We noted there was an average of 181 days between the issuance of the first and second letters, with one second letter being issued 397 day after



the first. We noted six second letters were sent out before ten days had lapsed, and only two were sent on the tenth day. In addition, in 21 NSF accounts the letters were not tracked at all, and 21 other NSF accounts lacked the second letter date, indicating the possibility those second letters were never sent. We also noted two instances where records indicated the second letter was issued before the first letter.

We also noted that LFUCG's NSF fee is currently \$10, compared to \$30 for LEXserv and \$50 for the County Attorney. It is common to see businesses charge at least \$25 for NSF checks. We noted 55 repeat offenders on the NSF tracking spreadsheet, indicating LFUCG's \$10 NSF fee is not an effective deterrent.

Effect:

An ineffective NSF collection process reduces the ability to collect funds owed.

Recommendation:

A formal procedure should be developed to consistently track and pursue collection of NSF checks. Collection letters should be consistently issued in a timely manner, and NSF accounts should be promptly referred to the County Attorney once the time to respond to second collection letters has elapsed. The tracking spreadsheet should be correctly completed on a timely basis with evidence of supervisory review to ensure Revenue collects all funds to the extent possible. Revenue management should also increase the NSF check fee as an added deterrent.

Director of Revenue Response:

The Division of Revenue concurs with Internal Audit that we should have a formal procedure to consistently track and pursue collection of NSF checks. We have updated our SOP on NSF checks that will allow us to consistently track and pursue collection of NSF checks. The procedure includes routing the NSF check to multiple staff, completing the check log, issuing collection letters in a timely manner and a review of the check log by the supervisor to make sure all NSF checks are being worked timely.

We concur with internal audit that the \$10 NSF fee is not an effective deterrent. The Division of Revenue is in the process of reviewing this policy.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Revenue's response.



Follow-Up Detail Results:

Revenue indicated that they have not updated any regulations or ordinances regarding the NSF Check Fee. Revenue management stated that the current NSF Check Fee of \$10 adequately covers the costs associated with an NSF check, and Revenue management believes the fee should not be raised due to the perception it would give that LFUCG is generating revenue on NSF check fees.

We also selected a sample of ten NSF checks and noted that the initial collection letter was sent to the customer in a timely manner; however, when the customer did not submit payment within approximately 10 days of receiving the first letter, the Division of Revenue did not promptly follow-up with another collection letter as required by their procedures. Our sample of ten NSF checks noted three instances where 39 to 45 days past before the second collection letter was sent. Revenue management informed us that the second letter is to be mailed if no response to the first letter is received within ten days.

We recommend that Revenue staff pursue collection efforts in a timely manner by following their internal procedures.

Director of Revenue Response:

The Division concurs that collection efforts should be pursued in a timely manner of NSF Checks. It should be noted that 1 of the 3 checks that second notification had not been sent at the time of the audit follow up was not sent because the customer had called in to discuss the payment and had planned to send the payment. As a result of the discussion with the customer, there was no need to send a second letter at that time.

As a result of the go live of the new billing system for LEXserv, NSF checks has increased a lot as they were mostly worked by GCWW in the past. Due to this the SOP developed to correct timeliness of NSF check tracking has been modified to include the enQuesta software as follows.

The processing section accountant will provide follow-up checks to the daily process. The procedure remains to route the NSF checks to multiple staff, complete the check log, issue initial collection letter through the enQuesta system automatically and process any responses. If no response is received within 10 working days, a second letter is sent. If no response is received, the item is then turned over for collections. The section accountant and Revenue Supervisor will monitor the check log to ensure the 10 day window requirements are met.



Due to the automation of the letter process in enQuesta, a delay of a few days (not a significant # of days) may happen from time to time as letters only print on Mondays. This process is automated to prevent needing one person daily creating letters for each and every NSF check. The benefit to having a new billing system is the automation of letters to make the division more efficient in terms of NSF collection. Updated processes have been completed.

Commissioner of Finance & Administration Response:

I concur with the Director.

Original Finding #6: Lack of Timely Reconciliations

Priority Rating: High

Condition:

During audit fieldwork, we requested the Concentration Account reconciliations for most months within the audit scope. The April, May, and June 2016 bank reconciliations had not been completed when initially requested on July 12, 2016. A series of communications between Internal Audit and Accounting occurred between July and September, during which time internal Audit was informed that constant work was being done to complete these reconciliations. The reconciliations were completed and provided to Internal Audit on September 16, 2016.

Effect:

The absence of a timely reconciliation process could lead to inaccurate balances and errors or irregularities being undiscovered for several months.

Recommendation:

All reconciliations should be completed in a timely manner. The completion of reconciliations on a monthly basis is the usual standard noted in accounting sources.

Director of Accounting Response:

The employee is new and is in training. The concentration reconciliation will be up-to-date by November 14, 2016.

Commissioner of Finance & Administration Response:

The Commissioner concurs with the Director of Accounting's response.



Follow-Up Detail Results:

The Director of Accounting stated they have trained a new employee on the reconciliation process. We obtained reconciliations from January 2017 through July 2017. Reconciliations through May 2017 appearing completed and the June reconciliation was partially complete but was waiting on finalized numbers from the CAFR. The July 2017 reconciliation was not completed, but was not considered late by end of our fieldwork.

The Director of Accounting also stated that the concentration account has been impacted by two new system go-live events; the Springbrook System for occupational license fees and the enQuesta System for LexServ fees. The Director of Accounting indicated that the interfaces and reconciliation of activity from these new systems have created an additional learning curve and the enQuesta System is still being stabilized. Accounting management has added bank reconciliation to the scope of the PeopleSoft upgrade to improve their reconciliation process and eliminate the current manual approach.

We concur with Accounting's efforts to continue working with the new interfaces and the PeopleSoft upgrade in order to eliminate the current manual reconciliation approach.

This finding has been resolved.

