



INTERNAL AUDIT REPORT

DATE: February 23, 2018

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Monica Conrad, Director of Parks & Recreation
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: Extended School Program Collections & Disbursements Audit

Background

The Extended School Program (ESP) is a fully licensed program that provides activities for elementary and middle school age children at a reasonable cost. ESP is a cooperative venture of the Lexington-Fayette Urban County Government Division of Parks and Recreation and selected Fayette County Public Schools. ESP's goal is to offer an affordable, high-quality school-age childcare alternative combined with student enrichment opportunities that include educational support, positive socialization skills, and a variety of leisure activities. The Kentucky Cabinet for Health and Family Services conducts an annual licensure review.



The ESP program is an Enterprise Fund fully supported by fees it charges to parents. ESP charged a weekly fee of \$55 per week for school year 2017 and the summer weekly fee was \$110. Total Operating Revenues for FY 2017 were \$1,904,620 and Total Operating Expenses were \$2,023,018.

Scope and Objectives

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

- Tuition fees are appropriate and collected based on written procedures
- Receivables for significant past due amounts and bad debt write offs are appropriately pursued for collection
- Cash collections are appropriately safeguarded and deposited in a timely manner
- Scholarships (which reduce or waive customer fees) are appropriate and supported by sufficient documentation
- Expenditures, including petty cash, are properly coded and allocated to the sites receiving the benefits and adhered to Purchasing guidelines
- Other control deficiencies identified in the prior audit have been 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 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 transactions from July 1, 2016 through October 31, 2017.

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 most of the general control objectives were being met. Opportunities to improve 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 and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs 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: ESP Delinquent Accounts and Law Collection Procedures Not Followed

Priority Rating: High

Condition:

ESP's procedures regarding delinquent accounts states that upon an account being three weeks in arrears the site will send out a payment reminder on Monday of the third week stating.... "that if total balance is not paid by Friday then the child/ren will



be removed from the program and school will be notified”. We selected twenty accounts with outstanding balances, five of which had the highest balances. We noted seventeen accounts appeared to be three weeks in arrears with no apparent action taken to comply with the ESP Delinquent Accounts Procedure such as withdrawal from the program and/or referral to the Department of Law (Law) for a collection letter. Fourteen had outstanding balances going into their third week but were not withdrawn prior to 4th week of billing. Eleven appeared to meet the criteria for referral to Law but did not appear on ESP’s law referral list or the active list from Law. The ESP Manager indicated that there might be some ambiguity in the ESP Delinquent Accounts Procedures leading to misinterpretation.

In another delinquent account review, we noted that ESP did not forward all delinquent accounts to Law for collection in compliance with their Law Collection Procedures. One account contained a notation on the account ledger stating that the account had been forwarded to Law; however, we determined the information was not provided to the appropriate personnel in the ESP office for inclusion on the quarterly listing sent to Law.

We also noted ESP’s Delinquent Accounts Procedure does not include procedures to adequately identify and refund overpayments, particularly when children are not enrolled in the program.

Effect:

Program fees may not be collected and questions may arise about the integrity of the program when delinquent accounts are not handled in a consistent manner.

Recommendation:

Management should consistently adhere to the ESP Delinquent Accounts Procedure and Law Collection Procedure to effectively monitor and manage customer accounts. Management should closely review the ESP Delinquent Accounts Procedures for clarity, remove any ambiguity, and communicate any updated procedures to staff. The Delinquent Accounts Procedure should also be updated to include a procedure for identifying and refunding overpayments.

Director of Parks & Recreation Response:

ESP Manager has revised the ESP Delinquent Account Procedure to clearly define the steps taken for outstanding balances, delineating steps for both enrolled and withdrawn accounts.



The Law Collections Procedure has been revised to include an additional step where all outstanding accounts are reviewed and compared to the program's software by ESP Manager prior to submitting to the Staff Assistant Sr. for referral to Law Department. This should ensure all accounts are accurately submitted.

The ESP Manager is creating an ESP Refund Procedure to address accounts that leave the program with a credit of \$20 or more. This will be complete by the end of February.

Commissioner of General Services Response:

I concur with the Director's comments.

Finding #2: Deposits Issues Noted
Priority Rating: High

Condition:

ESP currently has 11 remote sites that accept payments from parents and submit deposits to the Dunbar location for posting to the PeopleSoft financials and entry into the remote check scanner. We randomly tested 49 accounts with payments made during August 2016, February 2017, June 2017, and August 2017. We noted 17 deposits were late based on the number of days between the time payment was made at the ESP site and the time payments were deposited in the bank by the ESP office. Deposits were from one to three days late after allowing three days beyond the date the deposit was received at the ESP site (the first day of receipt was not counted since site locations remain open until 6 pm the and courier may have already collected for the day).

We also noted during our deposit testing that some payments posted on the site ledger were received during times when school or summer camp was not in session. When we inquired about this, ESP management indicated that these payments may have been mailed to the Dunbar office and were later included in the total deposit for the site location. ESP Procedures on Handling Weekly Tuition states that tuition fees must be placed in an envelope labeled with the school's name and then sealed with both staff signing over the flap of the envelope. (This is to cover any liability of site staff if loose checks are lost.) Therefore, ESP should not co-mingle payments received at site locations with payments received at Dunbar.



In addition, our testing for timely deposits noted that at least one ESP site location did not have an endorsement stamp for checks received.

Effect:

Late deposits, co-mingling deposits received from different sites, and failure to restrictively endorse checks unnecessarily exposes collections to the possibility of loss or theft.

Recommendation:

All deposits should be made within two business days and all checks should be restrictively endorsed upon receipt to comply with CAO Policy #40 (Policy & Procedure for Cash & Check Handling). ESP should receipt and deposit payments received at ESP site locations according to the ESP Procedures on Handling Weekly Tuition. ESP should also promptly receipt and deposit payments received at the Dunbar location detailing the point of receipt, and all sites should have a restrictive endorsement stamp.

Director of Parks & Recreation Response:

ESP Manager has revised the ESP Procedures for Handling Weekly Tuition. Previous procedure stated “Checks CAN NOT be held more than 2 working days” and has been updated to “Checks are submitted daily” as the courier now runs to each site daily. All employees who process tuition are being given the revised Procedure and will sign off stating they understand and will be held accountable to the revision.

The deposit sheet has been restructured with a separate box to account for checks received in the office. All sites have been audited to ensure each has an endorsing stamp.

All deposits received in the ESP office will be processed daily and posted to both the banking software and PeopleSoft Financials.

Commissioner of General Services Response:

I concur with the Director’s comments.



Finding #3: Privacy of Child Account Ledgers Needs to be Protected
Priority Rating: High

Condition:

The status of tuition payments is a business matter between the ESP program management and the parent who signed the ESP application. During our walkthroughs and testing of account ledgers at the ESP sites, we noted that the account ledger formats were not consistent and many did not adequately provide a separate child account ledger detailing the billed amount, payment amount, and/or the account balance. There were several account ledger formats listing twelve children's payment and billing information on one ledger sheet. As a result, when parents inquire about their account balance, they are able to see the account activity and balance for all other children that happen to appear on the same account ledger sheet.

Effect:

ESP account activity and payments are not properly safeguarded when individual payment information can be viewed by unrelated ESP participants.

Recommendation:

ESP should update the Procedures on Handling Weekly Tuition to include safeguarding the confidentiality of individual account ledgers. ESP should create a standardized account ledger worksheet to include individual account ledgers by student/household providing weekly details of the billed amount, the payment amount, and balance. This information should only be viewable by the specific account holder.

Director of Park & Recreation Response:

The next enrollment period for ESP is March 26th, 2018. At that time, each household will have a dedicated site ledger sheet that records and tracks individual account payments. The ledger sheet has been revised (to include charge, payment date, payment type, payment amount, and balance if any with an area to make a note if needed) and will be implemented at all sites starting the next round of ESP/REAL enrollment. This will ensure account privacy at all sites by using this standardized form.

Commissioner of General Services Response:

I concur with the Director's comments.



Finding #4: ESP Services Not Consistently Billed
Priority Rating: High

Condition:

All ESP site locations maintain Parent Sign Out sheets requiring parents to sign out children during pickup. We traced children names on Sign Out sheets to their parent account in ProCare to determine if they were billed for services rendered. We selected four site locations and reviewed their Sign Out sheets for the month of March 2017. We noted two children were included on the Parent Sign Out sheets for the week of March 27, 2017; however, their ProCare accounts had not been billed. One account indicated that the child was to start April 10th. We also noted that the first page of the Parent Sign Out sheets was the only sheet including a date. When we inquired about these billing incidents, the ESP Manager stated that she reviewed other sheets for this site and they appeared disorganized, and that the sheets may have been from another month but were pulled and included with the March activity.

Effect:

Failure to consistently bill for services rendered may result in uncollected revenue.

Recommendation:

The two accounts identified in the audit should be billed for services rendered. The Parent Sign Out sheets should contain the current date at the top of each page as a record of all children participating in the program on that date. ESP should periodically reconcile records of services provided to billed amounts in ProCare.

Director of Parks & Recreation Response:

The two accounts have been reconciled. A parent sign out template has been created and handed out to the administrative staff with instructions noting that site location and dates of service must be noted on each sheet of the parent sign-out.

The ESP Manager will create a labeling and filing procedure no later than March 31, 2018 for all pertinent forms like the parent sign outs to ensure proper upkeep and archiving. This procedure will document the 2017 – 2018 school year.

ESP Manager to randomly audit sites periodically to reconcile child attendance to billed amounts in ProCare.

Commissioner of General Services Response:

I concur with the Director's comments.



Finding #5: Overpayment of Honoraria
Priority Rating: High

Condition:

ESP has a Facility Usage Contract with the Fayette County Board of Education for the use of the Fayette County Public School facilities. The exhibit to the contract lists the areas used by the ESP program and the comments state that ESP is to pay honoraria in lieu of fees. We reviewed the contracts for the audit period and noted that in FY 2017 ESP paid honoraria in the amount of \$17,000 to four schools that did not host the ESP program for the contract period. ESP also overpaid a school \$1,500 in FY 2017 because the school did not participate in the ESP summer camp.

Management indicated that they have always paid the honoraria fee for the previous school year; however, for audit purposes we used the contract period as stated on the contract because this provides the documentation to support the actual payment plan. According to the executed contract, it appears that payments are required prior to the start of the contract period (school year usually begins in August of each year). We also noted that the executed contracts did not always contain the correct dates for the contract period covered.

We further noted that ESP did not process payment for the Fayette County Public Schools honoraria in a timely manner. ESP processed the FY 2016 payment on December 2, 2015 (four months after school began) because the ESP Manager was not aware this responsibility was part of her job duty.

Effect:

Overpayment of honoraria reduces funds needed for ESP programs. Late payment of honoraria could constitute a breach of contract.

Recommendation:

ESP management should ensure that the honoraria fee calculation is consistent with the actual usage of facilities, and management should consider seeking reimbursement from the Fayette County Public Schools for the overpaid honoraria. ESP should process the honoraria fee in compliance with the terms of payment mentioned in the contract, and the contract should correctly reflect the actual dates of facility usage.



Director of Parks & Recreation Response:

ESP will pay Fayette County Public Schools the contribution in the same fiscal year as the agreement states and will base the contribution to each school on enrollment and allowed building usage from the school year. Example: Contribution in FY 2019 will be paid in FY 2019 on enrollment and building usage during school year 2017-2018. The ESP Manager will work with FCPS central office to initiate the facilities rental agreement in July of each fiscal year and will work diligently with all other parties within LFUCG for prompt payment.

Commissioner of General Services Response:

I concur with the Director's comments.

Finding #6: Scholarship Procedures Not Consistently Followed**Priority Rating: Moderate****Condition:**

ESP's Partial Scholarship Approval Procedure states that all families requesting assistance through a partial scholarship must have an income eligibility form completed with signature and date and an acceptable copy of proof attached. We noted two issues with scholarship applications during our review. One parent did not sign their application, and one child who was receiving the scholarship fee was not included on the application with their other siblings. Based on household information attached to the application, it appeared that both students were eligible to receive the scholarship rate.

Effect:

Scholarship requests processed with incomplete information increase the risk of incorrect or unauthorized scholarships.

Recommendation:

ESP should consistently comply with their Partial Scholarship Approval Procedure prior to any reduction in fees.

Director of Parks & Recreation Response:

ESP Manager has revised the Scholarship Approval Procedure to include a list of all items that must be included and completed on the partial scholarship request prior to approval.



Commissioner of General Services Response:

I concur with the Director's comments.

Finding #7: Non-ESP Program Expenditure Noted
Priority Rating: Moderate**Condition:**

The ESP fund is a fee-based program that offers after-school programming for elementary and middle school children. However, we noted that ESP processed payment of \$199 for t-shirts used in the Bluegrass 10K run, which is a non-ESP program. According to the ESP Manager, the Department of Parks and Recreation started the Bluegrass 10K over 40 years ago before Downtown Lexington Corporation (DLC) started overseeing the race and absorbed the personnel, equipment, and supply costs. As one of the co-chairs, the ESP Manager decided to purchase t-shirts for the few runners who had raced all 40 years to commemorate the event. ESP management did not seek reimbursement from DLC for the t-shirts.

Effect:

ESP Funds should not be used for non-program expenditures.

Recommendation:

ESP management should only use the ESP Fund for ESP related activities.

Director of Parks & Recreation Response:

ESP Manager will only purchase items that maintain and support the continued operation of the ESP program.

Commissioner of General Services Response:

I concur with the Director's comments.



Finding #8: Expenditures Coding Issues Noted
Priority Rating: Moderate

Condition:

ESP expenditures are budgeted and coded to site locations to provide adequate management of expenditures. We noted that two transactions were charged to the Dunbar site and not to the actual site where the expense occurred. We also noted that water jug replacements were charged to ESP site locations instead of to the administrative site at Dunbar, and two transactions for CPR instruction and training were charged to the Operating Supplies account instead of the Required Training account.

Effect:

The accuracy of financial records is affected when incorrect site and account codes are used.

Recommendation:

ESP should consistently code expenditure transactions to the correct site and account.

Director of Parks & Recreation Response:

ESP Manager has adjusted the programs budget to improve accuracy and to ensure that expenditures are coded to the correct accounts and sites. ESP Manager will also perform fiscal year end reviews on all accounts to safeguard accuracy going into a new fiscal year.

Commissioner of General Services Response:

I concur with the Director's comments.

Finding #9: ESP Payroll Expenditures Miscoded
Priority Rating: Low

Condition:

ESP management expressed concern about personnel expenditures coded to the ESP program because they stated that in the past employees were incorrectly charged to the ESP Fund. We reviewed personnel expenditures by site location, including all ESP sites closed during the audit period. We noted that FY 2017 payroll expenditures in the PeopleSoft Financials included eleven employees incorrectly coded to closed ESP sites (two of the employees were also miscoded for FY 2018 payroll). We



determined that employees charged to these site locations had appropriately worked at other ESP sites and the hours appeared correct; the time was simply charged to the wrong ESP site. ESP can change coding in PeopleSoft HCM; however, Human Resources must make changes to Payroll information. Although the coding was incorrect in the PeopleSoft Financials at the outset of fieldwork, it had been corrected by the time we met with Human Resources to discuss it.

Effect:

Payroll expense that is charged to the incorrect site reduces management's ability to properly monitor and manage ESP site costs.

Recommendation:

ESP management should closely monitor all payroll expenditures and promptly request detailed information from the Payroll Manager in the Division of Accounting and/or from Human Resources personnel regarding any unusual employee coding.

Director of Parks & Recreation Response:

ESP Manager has worked with Payroll coordinator and is running bi-weekly HCM and Financial reports to ensure all staff is correctly coded.

Commissioner of General Services Response:

I concur with the Director's comments.

