



INTERNAL AUDIT REPORT

DATE: March 27, 2019

TO: Linda Gorton, 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
Susan Speckert, Commissioner of Law
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

RE: Law Collections Audit

Background

The Department of Law is responsible for collection for a number of different types of accounts, including Code Enforcement liens on property transfers, delinquent occupational fees, delinquent LexServ Accounts, delinquent ESP accounts, delinquent Fire EMS billings, various promissory notes, lawsuits with monetary value, etc. This collection process is administered by paralegals within the Department of Law, who deliver the collections to the Division of Revenue for deposit into the bank. The



Department of Law's records indicate \$708,630 was collected for these various accounts during FY 2018.

Scope and Objectives

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

- Law collections are properly assessed, recorded, and reported
- Law collections are deposited in a timely manner
- Law collections are properly safeguarded prior to deposit
- Account write-offs are appropriate and approved
- The Law collection process is efficient and effective

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 period of review for our audit included transactions from July 1, 2016 through September 30, 2018.

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 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: Late Deposit of Occupational License Fee Collections

Priority Rating: High

Condition:

Nine of the fifteen Occupational License Fee transactions tested were posted into Springbrook from three to nine business days after Law delivered the payments and related documents to the Division of Revenue. Revenue was able to verify the actual deposit date on seven of the nine transactions (the banking system could not go back and look for the individual checks in 2016), and all seven were deposited on the same or next day as they were posted in Springbrook, indicating that the payments were also deposited three to nine business days late. CAO Policy #40 states, “Deposits should be delivered to the bank in a timely fashion (i.e. business day or next business day).”



Effect:

Late deposits are a violation of CAO Policy #40.

Recommendation:

All funds delivered to the Division of Revenue should be deposited in the bank on the same or next business day as required by CAO Policy #40.

Director of Revenue Response:

The Division of Revenue concurs with Internal Audit's recommendation of timely deposits. In response to Deposits from Law, a new process is being developed for payments delivered to the Division of Revenue. When a payment is delivered to the Collections team for deposit, the date of receipt will be stamped on the paperwork that stays in the Division and the copy that goes back with the Law records. The check and paperwork is given to the proper person to ensure the deposit is made timely based on CAO Policy #40. The Division of Revenue also implemented a policy a couple years ago that each new employee receives a copy of CAO Policy #40 upon being hired and explained the timeline of when deposits should be put into the bank. Annually, the Division also discusses the importance of CAO Policy #40, provides a copy of the policy to each employee and has them sign a form stating they have received a copy and understand the importance of the policy.

Chief Administrative Officer Response:

I concur with the Director of Revenue's response.

Finding #2: Reduction or Elimination of Department of Law Change Fund Should be Considered

Priority Rating: Low

Condition:

The Department of Law has a change fund that contained \$211.00 on the day we examined it. It had two receipts in the change fund box (\$6.00 coffee purchase and \$8.00 to make copies), and a note indicating the change fund contained \$166.67 on April 28, 2016. Otherwise, there was no evidence of a change fund reconciliation. The Receptionist was not aware of anyone counting or reconciling the change fund since she started working in the Department of Law in March 2018. She said she rarely needs to access the change fund, and when she does it is usually to make change for an open records payment. This change fund is separate from the petty cash checking account



used by the Department of Law for legal activities such as the mailing of briefs via certified mail, payment of court related fees, and obtaining copies of trial court videos from the Circuit Court.

Effect:

The current change fund amount appears to be excessive when compared to its limited use. Failure to reconcile change funds can result in lost or misappropriated cash being undetected.

Recommendation:

Management should consider reducing the change fund amount or possibly eliminating it altogether. The Division of Revenue has verified that citizens wanting to purchase copies of open records can obtain exact change if needed at the Revenue Payment Center. If the decision is made to retain the change fund, a monthly reconciliation of the fund should be performed by someone with no access to it in order to ensure it is used for appropriate expenditures. The reconciliation documentation should then be submitted to the Division of Accounting.

Commissioner of Law Response:

We agree with the recommendation and will eliminate the change fund. Going forward, we will neither hold cash nor make change for any purpose.

The following steps shall be immediately taken:

- The funds currently contained in the change box will be deposited into the general revenue account.
- Any citizen wishing to purchase copies pursuant to an open records request will have to present exact change. They will be directed to the Revenue desk if they need to make change.
- Any employee wishing to purchase stamps or personal copies will have to present exact change. They will be directed to the Revenue desk if they need to make change.
- Any cash received for any purpose will be deposited into the general revenue account within 24 hours of receipt as required by CAO Policy #40.
- Upon receipt of any cash, the following steps shall be taken:
 - A receipt will be provided, and the cash will be accepted and logged in by the front office administrative specialist, or other administrative specialist in the event of absence.



- The cash will be taken to one of the collections paralegals to prepare and make the deposit within 24 hours of receipt.
- The paralegal will log in the deposit and place the deposit slip in the cash log folder.

I hope that this procedure is acceptable and resolves the audit finding. Please let me know if I can provide any further information.

Chief Administrative Officer Response:

I concur with the Commissioner of Law's response.

