



## **INTERNAL AUDIT REPORT**

DATE: February 14, 2020

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  
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  
Jim Quinn, CIA, CISA, Internal Auditor

RE: LEXserv Billing and Collections System Audit

### **Background**

LFUCG's Division of Revenue bills and collects for LEXserv city utility services including sanitary sewer, landfill, and water quality fees. Before 2012, these fees were collected as part of Kentucky American Water bills. In 2012, Kentucky American Water decided to discontinue this practice, and the City turned to Cincinnati Water Works as a short-term solution to provide customer billing for these fees.



In 2015, an RFP was created to solicit proposals from vendors to bring the LEXserv billing system in-house. Systems & Software, Inc. and its enQuesta Customer Information System (CIS) software was selected and LFUCG began the system conversion process working with Cincinnati Water Works. In May 2017, the new LEXserv billing system went live providing many benefits, including bringing the system in-house, allowing payments to be mailed to a Lexington address for processing, and creating a new web portal for customers to make payments and review their billing. The system currently bills approximately 115,000 customers per month.

### **Scope and Objectives**

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

- Documented fee and collection procedures for the LEXserv system exist and provide sufficient explanation of the process
- Fees and collections are properly assessed, supported, recorded, and processed in a timely manner by the LEXserv system
- Cash collections and revenue reported in the LEXserv system are properly interfaced and correctly posted to the LFUCG PeopleSoft Financials General Ledger system

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 occurring July 2018 through September 2019.

### **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: LEXserv Bank Reconciliations Are Not Being Done on a Timely Basis and Are Not Completely Reconciled**

**Priority Rating: High**

#### **Condition:**

We requested LEXserv bank reconciliations for the months of July, August and September 2019 from the Division of Accounting. We were told that these reconciliations had not yet been completed. We then reviewed the monthly reconciliations from July 2018 to June 2019 and noted that variances existed for all of



these months and had not been fully explained or accounted for. The variances for these months ranged from (\$71,283.73) to \$20,063.50. Negative variances indicate amounts where the total deposits on the bank statement exceed the transaction amounts posted to the LEXserv General Ledger. Positive variances indicate the amounts posted to the LEXserv system General Ledger exceed the amounts deposited per the bank statement.

We also noted that LEXserv system daily transactions on November 4, 2018 and December 31, 2018 totaling \$300,229.66 and \$558,793.95 were not properly interfaced and therefore were not posted into PeopleSoft. These unposted daily transactions were subsequently discovered during the February 2019 monthly bank reconciliation, and journal entries were made on February 28, 2019 to post these transactions into PeopleSoft. Division of Revenue staff indicated these errors occurred due to the interface being run before the daily LEXserv system update processes had occurred. These two interface errors totaling \$859,023.61 are a prime example of the importance of completing reconciliations in a timely manner.

Variances in bank reconciliations can occur for a number of reasons including timing differences, bank fees, NSF charges, and service charges which are not adequately reflected in the General Ledger accounting records. Variances can also be caused by errors or omissions in the posting of General Ledger transactions and errors in the posting of bank transactions, etc. Complicating factors in the LEXserv bank reconciliation include the sheer volume of monthly transactions, the number of bank accounts associated with the LEXserv system that are included in the reconciliation, and the different type of payments which need to be processed by the LEXserv system including ACH, drop box, and online electronic payments, etc. The LEXserv General Ledger must also interface correctly with the LFUCG PeopleSoft financial system to ensure all relevant transactions are included and can be reconciled to the bank statements.

**Effect:**

Bank reconciliations provide a critical accounting control and should be performed completely on a consistent and timely basis. Not performing complete bank reconciliations on a timely basis increases the risk of inaccurate financial reporting, the loss of funds due to bank errors, and undetected asset misappropriation or fraud. The LEXserv bank reconciliation, in particular, provides a crucial monitoring control to ensure that all LEXserv transactions are interfaced with the LFUCG PeopleSoft financial system. If it is not performed in a complete and timely manner, the risk that



some LEXserv transactions may not be reflected properly in the PeopleSoft Financials system is increased considerably.

**Recommendation:**

The Division of Accounting should complete the monthly LEXserv bank reconciliations as soon as possible after period month end. Variances between the PeopleSoft General Ledger and bank statement should be resolved to the extent practicable. Unresolved variances should be brought to the attention of Division of Accounting management.

**Director of Accounting Response:**

The cash reconciliation has improved when compared to a year ago, before the ERP upgrade. The new reconciliation process is more accurate and the ability to retrieve audit data is faster and more reliable. The new process for cash reconciliation has the opportunity to improve. The Finance Commissioner is aware that the bulk of the cash reconciliation data is being posted into PeopleSoft via the General Ledger. Currently, the automated bank reconciliation is available in both the treasury and accounts receivable modules. A project is required that will convert the General Ledger data into quick receipts to be posted into the accounts receivable module. This will vastly increase the speed of the cash reconciliation process by allowing the auto/semi-auto function to match receipts and cash quickly. The current process is to complete the bulk of the reconciliation manually. The Enterprise Division and the Accounting Division will work together to gather more information and requirements, in order to develop a solution.

**Chief Administrative Officer Response:**

I concur with the Director of Accounting's response.

**Finding #2: Two LEXserv System Transactions Did Not Properly Interface With PeopleSoft Financials**

**Priority Rating: High**

**Condition:**

As noted in Finding #1, our review of LEXserv bank reconciliations noted that LEXserv system daily transactions on November 4, 2018 and December 31, 2018 totaling \$300,229.66 and \$558,793.95 were not interfaced and did not post in the PeopleSoft Financials. This was discovered and corrected during the February 2019



bank reconciliation. Division of Revenue staff indicated these errors occurred due to the interface being run before the daily LEXserv system update processes had occurred. As a result, the transactions for those days were not picked up and were missed by the interface.

**Effect:**

Failure to consistently interface all LEXserv system transactions with the PeopleSoft Financials system will affect the accuracy and reliability of LFUCG's financial records and statements.

**Recommendation:**

The Division of Revenue should develop a formal procedure that ensures all LEXserv system update processes have occurred before running the interface with PeopleSoft. Management may consider conducting routine spot checks of LEXserv transactions to ensure they have been interfaced with PeopleSoft Financials. They should also consider requesting the development of an exception report that will alert them when an interface between LEXserv and PeopleSoft has not been done.

**Director of Revenue Response:**

The Division of Revenue agrees for the need to develop a formal procedure that reconciles the entries created in the LEXserv software are all interfaced to the PeopleSoft GL. Currently the process in place has the Revenue accountant included on the daily email from the LEXserv employee confirming the daily processes are updated. This notifies the accountant that interfaces can be completed. Once the interfaces are put into PeopleSoft, the Revenue accountant confirms that they are posted to PeopleSoft but it is not a documented formal process. The Division of Revenue will develop report in each system to be used to reconcile that all transactions are captured on the interfaces and posted to the PeopleSoft general ledger. This reconciliation will be completed by the Supervisor of the Processing area. In addition to these controls, the Division of Accounting's updated bank reconciliation discussed in finding #1 will provide a secondary reconciliation process to the interface process. This process will be completed beginning with February 2020 month end close.

**Chief Administrative Officer Response:**

I concur with the Director of Revenue's response.



**Finding #3: Number of Bills Sent to Bluegrass Mail not Consistently Reconciled to Number Indicated as Received**

**Priority Rating: Moderate**

**Condition:**

The Division of Revenue generates LEXserv billing files which are sent via File Transfer Protocol to Bluegrass Mail for printing and mailing out to LEXserv customers. Once these files are transmitted, Bluegrass Integrated Solutions (BIS) will send back to Revenue a file indicating all bills received by them for confirmation purposes. Revenue has prepared a reconciliation spreadsheet to ensure the control count and control total dollar amount of bills sent to BIS match the number and total dollar amount BIS verifies they have received. However, the reconciliation of these bill counts and total bill amounts is not done on a timely or consistent basis.

**Effect:**

Failure to reconcile bill control counts and total bill control amounts on a consistent basis could allow unbilled accounts to be undetected.

**Recommendation:**

The Division of Revenue should perform these reconciliations with every billing file sent to Bluegrass Integrated Solutions to ensure all bills are sent out to customers in the appropriate billing cycle.

**Director of Revenue Response:**

The Division of Revenue currently has a reconciliation process; however, it was not consistently updated. The Division will formalize the LEXserv reporting process where the LEXserv Supervisor will review the daily log of bills. The Administrative Specialist to the Division will reconcile the number of bills sent to Bluegrass Integrated Solutions to the number of bills mailed out by the post office. The reconciliation will be approved by the Director. This process will begin immediately.

**Chief Administrative Officer Response:**

I concur with the Director of Revenue's response.

