Fairfax County Internal Audit Office

Department of Administration for Human Services and Department of Family Services
SACC Revenue Collections Audit
Final Report

January 2009

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Background

We performed an audit of the School Age Child Care (SACC) program revenue collection process. The program is managed by the Department of Family Services, Office for Children (OFC). The Department of Administration for Human Services (DAHS), Division of Financial Management supports OFC by managing billing, collection and accounting for SACC fees. Approximately 75 percent of the SACC program is funded by fees charged to customers and 25 percent by the county. SACC fees collected in FY 2006 and FY 2007 were $24.9 million and $26.3 million respectively. In 2003, DAHS converted from an internal Oracle-based billing system to using the School Aged and Employee Child Care Management System (SEMS), a third party Web-based registration and receivable billing and accounting system. The use of SEMS provided more automation of billing, collection and accounting processes and increased the capability for more efficient and effective operations.

Executive Summary

Our audit focused on the billing, collections, refunds and accounting functions associated with revenues from SACC fees. The results of our audit procedures indicated that the controls over initial billings and cash receipts were adequate. Most of the revenue collected was deposited directly into the county's bank account through lock box and electronic payments. Billings were being made timely and accurately. However, our audit found that controls over write-off procedures, refunds and accounting functions needed to be strengthened.

Per the Aged Receivable Report, the total receivable balance on December 31, 2007, was $4.084 million, of which $2.28 million of the accounts were from 2003 to 2006 and $856,000 of receivables from 2007 was over 90 days past due. While the amount of significantly past due receivables was high, we did note that DAHS had begun working with an outside collection agency in the beginning of 2008, and some progress had been made in collecting these items. Even though the collection agency was still determining the collectibility of many seriously delinquent accounts and had generally not made recommendations for specific write-offs, the department should finalize its draft write-off policy, and submit the procedures to the Department of Finance for approval.

We also found that receivables were being entered into SEMS; however, these balances were not recorded in FAMIS.

Other findings are summarized as follows:

- The total net fee collections recorded in FAMIS were not being reconciled to SEMS. Reconciliations to deposits were being performed on a daily basis to supporting documentation, but the monthly and annual totals in FAMIS were not reconciled to SEMS.

- Based on service cancellation dates, overpayments totaling $3,097 were noted for several cash refund transactions tested, and we found some refunds in the sample were not paid in a timely manner.
- Prenumbered receipts were not being reconciled to deposits and number sequences were not properly controlled.
- Documentation for the authorization of SEMS users was not being maintained and there was not proper segregation of duties for some SEMS user profiles.
- DAHS's Billing and Collection Plan did not include a requirement for receivable reconciliations, a write-off policy or stated collection goals as required by ATB 036.

Scope and Objectives

This audit was performed as part of our fiscal year 2008 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. This included tests of internal controls and transactions related to bank deposits, billing and refund transactions and SEMS user access and segregation of duties. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of January 1, 2007, to December 31, 2007, and our audit objectives were to determine that:

- Adequate controls over receipt, deposit, and recording of funds received existed.
- The billing process was performed efficiently and effectively.
- Fees due were being collected in an efficient and effective manner.
- Cash refunds were authorized, valid, accurate, and supported by adequate documentation.
- Adequate SEMS user access controls existed.

Methodology

Our audit approach included interviewing appropriate staff, observing employees' work functions, detailed testing of various samples of transactions, and evaluating the processes for compliance with sound internal controls, county policies, and departmental policies and procedures.

Our audit did not examine all system controls over SEMS billing, collections and posting applications. Our transaction testing did rely on some of these controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data may have been erroneous.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by Government Auditing Standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the county executive and the Board of Supervisors, and reports are available to the public.

Findings, Recommendations, and Management Response

1. Recording Receivables in FAMIS

Fees were recorded in FAMIS at the time of collection, but accounts receivable billings were not entered in FAMIS. At December 31, 2007, there was $4.084 million of outstanding receivables. The receivables were recorded in SEMS, which did not interface with FAMIS.

SACC fees collected have grown from $14.5 million in FY 2001, at the time of our prior audit, to over $26 million for FY 2007. The Department of Finance's Accounting Technical Bulletin ATB 036 encourages agencies to use FAMIS; however, if other information systems are used to record receivables, such as SEMS, periodic entry into FAMIS is necessary to ensure that balances are properly stated on county financial statements. While we recognize that past billing levels may not have necessitated entry into FAMIS, material amounts of accounts receivable not recorded in FAMIS can result in understated receivable balances and decreased accountability for effective accounts receivable management.

Recommendation: We recommend that DAHS work with the Department of Finance (DOF) to determine an efficient and effective method to record accounts receivable in FAMIS on at least a periodic basis. The potential collectibility of significantly delinquent accounts should be taken into consideration as part of this process, along with the expected net revenues to be realized from accounts referred to a collection agency.

Management Response: DAHS staff met with DOF and they indicated that DAHS staff should not record receivables in FAMIS but should send monthly accounts receivable information to DOF staff for management review and recording in FAMIS, if deemed appropriate. DOF staff is currently reviewing SACC receivable information for prior months and will be issuing a recommendation to DAHS regarding what information is to be reported to DOF monthly. Upon receipt of this recommendation from DOF, DAHS staff will incorporate the reporting of receivables to DOF into the monthly reconciliation process.

2. Accounts Receivable Write–off Policy

During the period of time covered by our audit, there was no write-off policy in place. Since that time DAHS has put together a working draft; however, there is not a finalized policy that has been submitted to DOF. According to ATB 036 Billing and Collection Procedures for Billable Revenue and DFN 036-1 Write-Off of Uncollectible Non-Tax Accounts Receivable, agencies with billable revenues are required to develop a process for writing off receivables that is approved by DOF. Approximately $2.28 million of the $4.084 million receivables outstanding on December 31 2007, had dates due ranging from 2003 through 2006. In addition, $856,000 of 2007 receivables was greater than 90 days past due. Uncollectible accounts inflate the value of receivables, which may result in inaccurate revenue projections and financial statement reporting.

Recommendation: DAHS should finalize, and submit to DOF for approval, a receivable write-off policy to ensure the proper and timely write-off of all accounts considered uncollectible to avoid misstatement of accounts receivable. The policy should include adequate controls such as proper reviews and authorization of write-offs. It should also specify procedures regarding the collection agency.

Management Response: The receivable write-off policy, which was a joint effort between Office for Children (OFC) staff and DAHS staff, has been finalized and submitted to DOF for approval. The $2.28 million in delinquent receivables from 2003-2006, identified in the audit, represent about 2.5% annual receivables for that period. A total of $2.8 million in receivables was submitted to a collection agency (NCC) in March 2008; however, to date, NCC has not recommended any write-offs because it has been successfully collecting on the accounts. OFC, DAHS, and NCC will continue to work together to monitor these accounts until these account balances are zeroed/cleared through payment or the write-off process.

3. Billing and Collection Plan

The billing and collection plan had not been updated to include SEMS, a Web-based accounts receivable billing and accounting system instituted in 2003. The plan provided by DAHS describes procedures for the old Oracle accounts receivable system. DAHS's Billing and Collection Plan was also not in compliance with ATB 036, as the plan did not include a requirement for monthly accounts receivable reconciliations, collection goals or sample formats of receivables aging reports and collection letters.

County agencies that generate billable revenues are required to develop, implement and update billing and collection plans in accordance with ATB 036 and have them approved by the Department of Finance. When Billing and Collection Plans are not in compliance with ATB 036 and not updated, it increases the risk that billing and collection procedures staff are not properly processing billings and collections of fees, which may result in reduced revenues.

Recommendation: We recommend that DAHS work with DOF to ensure that their Billing and Collection Plan complies with ATB 036, update the plan to reflect current operations with SEMS and obtain DOF approval.

Management Response: An updated Billing and Collection Plan has been submitted to DOF for approval.

4. Reconciliation of FAMIS to SEMS

Reconciliation of FAMIS to SEMS month end balances was not being performed for the total net fee collection balances. Reconciliations were performed for deposits on a daily basis to supporting documentation, but the monthly and annual totals in FAMIS were not reconciled to SEMS. DAHS tracked net fee collections, fees received less returned checks and refunds, on an Excel spreadsheet. The spreadsheet was reconciled to the amount recorded in FAMIS, but not to SEMS, the accounts receivable accounting system used by DAHS Department staff noted that this occurred mainly due to staffing limitations and because the position responsible for reconciliations was vacant for a long time.

ATB 10020 and ATB 036 require all county departments to ensure the integrity of financial transactions posted to the county's financial systems by performing monthly reconciliations in accordance with reconciliation plans developed by departments and approved by the Department of Finance. The reconciliation of FAMIS to SEMS helps to prevent accounting errors, and detect unauthorized and improper transactions related to revenues collected and accounts receivables.

Recommendation: DAHS should reconcile total net collections recorded in FAMIS to SEMS on a monthly basis as required by ATB 10020 and ATB 036 and include this procedure in the Billing and Collection Plan.

Management Response: SEMS and FAMIS were being reconciled on a daily basis for collections only. Per this recommendation, DAHS is now performing a monthly reconciliation of net collections. To date, July through October 2008 FAMIS transactions have been reconciled to SEMS and this monthly reconciliation has been added to the Billing and Collection Plan.

5. Cash Refunds

In three out of ten refund transactions tested, it appeared that the refund payments of SACC fees exceeded the amounts due to the payee by a total of $3,087. For all three transactions, per the registration notes, service cancellation dates were not within the two week notification required by the SACC Parent Handbook. The refunds for the transactions were given based solely on the service cancellation dates and without consideration of the two week notification requirement, causing overpayments. All of the refunds were recorded and approved by DAHS management with sufficient documentation to substantiate the initial receipt of the fees from customers. However, there was no documentation authorizing an exception to the SACC Parent Handbook policy.

ATB 20100 requires county agencies that collect revenues to determine the validity and amount of refunds due to payees and maintain the required documentation to support the refund. Additionally, lack of compliance with SACC program guidelines for cancellation can result in inefficient utilization of the program. If SACC fee refunds are not adequately reviewed, controlled and monitored, the risk of overpayments, fraudulent payments and payments made that are not in compliance with county policies increase, which all result in loss of revenue.

Recommendation: DAHS should ensure that requests for SACC fee refunds are properly reviewed and all the necessary supporting documentation is obtained from SACC Registration. Documentation should be maintained which includes justification for any waivers and evidence to support the validity and accuracy of amounts due to payees. Procedures followed should be in accordance with ATB 20100 and the SACC Parent Handbook.

Management Response: According to SACC policy, fees are collected and a refund can be issued if services are cancelled with two weeks notice. However, exceptions can be made by SACC management due to a number of factors including child custody cases, family crisis, etc. SACC registration staff will document all exceptions in the SEMS note section when exceptions are granted. DAHS staff will ensure that accounts with a credit balance are not refunded unless the credit issued by SACC registration staff is within SACC policy or there are notes in the notes section documenting an approved exception.

6. Prenumbered Receipts

Prenumbered receipts issued to customers for check payments received at the SACC Registration Office were not always being reconciled to deposits. Also, staff did not account for the number sequences of the prenumbered documents. All fee collections by the SACC Registration Office and supporting documentation were required to be forwarded to DAHS for deposit and reconciliation.

Reconciliation of prenumbered documents to related transactions and accounting for the number sequences strengthens internal controls. Failure to reconcile receipts to deposits and review the number sequences for receipts increases the risk of undeposited funds through fraud or error.

Recommendation: Receipts issued for funds received at the SACC Registration Office should be reconciled to the deposit slips on a daily basis. Additionally, the receipts should be issued in number sequence and reviewed. Any gaps in the sequence should be investigated.

Management Response: SACC registration staff used three receipt books to issue receipts when SACC fees were paid at the SACC registration desk. This was necessary because there were often long lines for payments, registration, and other information about SACC services. During the audit, each missing receipt was accounted for. However, SACC registration staff will now use only two books and all receipts, including voided receipts, will be given to DAHS staff daily for reconciliation purposes. DAHS staff will monitor all receipt numbers and reconcile them on a monthly basis. DAHS staff has created a monthly receipt log, which has been utilized for three months now and lists all receipt numbers issued by SACC each day throughout the month. The log is reviewed and initialed by DAHS management at the end of the month and is filed with the monthly reconciliation documentation.

7. SEMS Access

Written documentation authorizing the SEMS systems administrator to add or terminate users was not fully maintained. Additionally, based on user access tests, the financial manager role in SEMS had access to screens for recording collections, accounting adjustments and processing returned checks, and had the ability to initiate and approve the same transactions in those screens. There was no evidence of controls to compensate for lack of segregation of duties for the finance manager role in SEMS.

The Office for Children IT security policy requires supervisors to submit e-mail requests to the SEMS system administrator for adding or terminating SEMS users, and requiring documentation supporting authorization of user access and proper segregation of duties for users of a computer system are controls to prevent improper access to the system and functions within the system.

If documentation authorizing SEMS user access is not being maintained and there is not proper segregation of duties for SEMS users, it increases the risks of unauthorized users and transactions which have the potential to lead to fraud or error.

Recommendation: OFC should keep written documentation on file as evidence of supervisors' requests to the SEMS system administrator approving user additions and terminations. Also, OFC should ensure there is proper segregation of duties for all SEMS users, or develop and implement compensating controls for those that cannot be changed in the system.

Management Response: OFC current policy requires all SEMS users be approved in writing by the program area supervisors. This documentation was being retained for three months. However, this documentation will now be kept with the OFC system administrator two years beyond the date the user's access ends. In addition, OFC will add a monthly audit that identifies SEMS users who both initiate and approve the same transactions on the finance screens. Audit results will be e-mailed by Dynaxys, the outside contractor, to the OFC IT staff monthly for action, if necessary. The anticipated completion date is the end of December 2008 with the next production release by Dynaxys.