



Fairfax County Internal Audit Office

Department of Neighborhood Community Services
Revenue Collection Audit
Final Report

November 2017

"promoting efficient & effective local government"

Background

We performed an audit of the Department of Neighborhood Community Services (NCS) revenue collection processes. NCS collects fees for multiple programs, at many different locations, which are initially recorded in various computer applications. They are ultimately posted to the county's corporate enterprise resource program (FOCUS). However, none of the NCS programs utilize an electronic cashiering system. Almost half of the NCS FY2016 annual revenue streams were budgeted and recorded in the county's general fund, totaling \$1,012,730 collected for the year. Athletic field and facility reservation fees, totaling \$1,251,249 collected in FY2016, were budgeted and recorded in the county's capital project fund 30010.

Although NCS annual revenues are only approximately \$2.25 Million, there is a degree of complexity to the department's revenue collection function. NCS not only utilized several different computer applications, it had also implemented differing collection and accounting practices and procedures, and differing internal controls, for its various programs. Our audit fieldwork testing of NCS revenue collections included a broad audit sample, designed to provide audit coverage of most, if not all the various NCS revenue collection processes, computer applications, and facility locations. During our audit survey phase, it became apparent that a single recreation program could potentially utilize multiple funds, cost centers, and financial systems. Therefore, we concentrated our review of internal controls over revenue collections for the following larger program areas:

- Community centers, which included the RecQuest after-school and school break recreation program, teen center programs, and other community center activities. These programs track and record revenue transactions directly in the county's FOCUS system, and do not utilize a separate computer application.
- Senior Centers, which included annual membership fees, and other fees for such activities as field trips and classes. The membership fees are first tracked and recorded in the ParkNet computer application, while the other senior program fees are tracked and recorded directly in FOCUS.
- Therapeutic recreation programs, for which most revenues are tracked and recorded in the NCS TRACERS registration and revenue collection computer application.
- Athletic field and facility reservations, which utilize the AFAR/AFSS reservation and revenue collection computer application.

Our audit sample of revenue transactions also included other programs and computer applications, for which we did not separately document and assess the revenue collection policies and procedures, due to their relatively small revenue streams. Such programs included: certain FASTRAN bus service revenues, recorded in the county's CMCP computer application; Medicaid client fees recorded in the Logisticare system; Dial-A-Ride, Taxi Access, and Seniors-On-the-Go discounted taxi voucher revenues recorded in the NCS Taxi System; and miscellaneous revenues recorded in the NCS Pro-Act system.

Executive Summary

Our audit focused on the collection and accounting of NCS revenues, and the application of reductions to program fee amounts for eligible participants. We found that revenues collected were generally properly accounted for, and revenue reconciliations were performed between the various computer applications and FOCUS. We did note, however, several opportunities for improvement in the issuance of cash receipts, the timeliness of bank deposits, and timeliness of recording revenues in the county's FOCUS system. Areas in which controls could be strengthened were as follows:

- NCS had not received confirmation of acceptance of its revised billing, collection, and monetary receipts processing plan from the county's Dept. of Finance (DOF).
- NCS' time to deposit general fund monetary receipts into the county's bank accounts was an average of 4.2 business days. This average included electronic payments as well as cash payments, so the average time to deposit cash collections was higher. For 98 (11.2%) of the general fund cash receipts we reviewed (excluding electronic payments), the time to make bank deposits for cash collections exceeded eight business days. County policy in effect during the audit period required that monetary receipts be deposited no later than the next business day after receipt of funds.
- NCS' time to record general fund revenues in FOCUS, after the bank deposits were made, was an average of 4.6 business days. 1,106 (78.6%) of the general fund monetary receipts we reviewed (included both electronic and cash payments) were not recorded in FOCUS within the timeframe required by county policy. We also noted ten revenue transactions which were reported in the wrong fiscal year due to a substantial delay in posting to FOCUS.
- 177 (15.1%) of the cash receipt transactions we reviewed, including checks, did not have a cash receipt on file. Therefore, we could not determine the timeliness of bank deposit and recording of revenues in FOCUS for these transactions. Also, for cash receipt transactions for which there was a receipt on file, 148 (12.6%) were not sufficiently completed such that we could not validate the bank deposit amount. Additionally, 302 (25.7%) of the receipts were not dated, so we could not determine the timeliness of the bank deposits or recording in FOCUS. These exceptions were an audit scope limitation. We also noted that 352 (30%) of all general fund cash receipts we reviewed did not include the name of the NCS staff who had first received or handled the cash or check.
- NCS did not maintain a record of the date and time, and name, of the staff who first received or handled cash and money orders received through the mail or in person for athletic field reservations. For athletic field reservation fees paid by registrants in person at NCS' central administration location, NCS did not consistently issue cash receipts, as a receipt was issued only if requested by the customer.

- NCS was not able to support the fee reduction amounts granted to RecQuest program participants. We also noted inconsistent and conflicting practices and documentation among the community centers regarding the application and approval process for RecQuest fee reductions. Nearly all (95%) of the 20 RecQuest fee reduction applications we reviewed were not sufficiently documented to validate the applicant's income eligibility for the fee reduction amount granted by NCS staff, and the majority (75%) of the reduced fee applications did not appear to have the required approval by NCS management. Several of the 20 fee reduction applications we reviewed for senior center annual memberships were not completed or approved by required NCS staff, or else the supporting document(s) were not sufficient to validate the applicant's income eligibility for a fee reduction. NCS acknowledged that the department had not implemented any formal application and approval process for reduced fees for the teen center during the audit scope period. Additionally, NCS had not implemented a formal process for validating participant's income qualifications for reduced fees for the therapeutic recreation programs either.
- NCS did not comply with county policies requiring dual access to cash safes and lockboxes, and the changing of safe combinations and/or locks annually.

Scope and Objectives

This audit was performed as part of our fiscal year 2016 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. 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 July 1, 2015 through June 30, 2016, and our audit objectives were to determine:

- All NCS revenues and fees due were properly collected.
- All revenues received by NCS were deposited, posted, and reconciled in a timely and accurate manner.
- All revenues/cash collected were adequately safeguarded.
- All revenue adjustments and refunds were proper and duly authorized.
- Internal controls over receipt, deposit and recording of program fees were adequate.

The primary county policy documents covering our audit period were ATB 40070 Processing Monetary Receipts; and DFN 40071.01 Processing Monetary Items-eCollections. These policy documents were superseded by the current county policy document FPS 470 Processing Monetary Receipts (REVISED August, 2017) and PS436 Billing and Collection Procedures (Non-Tax Accounts) revised on 6/1/2016. The policies requiring that all county departments have a billing and collections plan approved by Dept. of Finance, and that monetary receipts be deposited by the next business day have not

changed in the new policy documents, but the requirement to record revenues in FOCUS within one day of deposit was changed to two days.

Methodology

Our audit approach included interviewing management and staff responsible for the collection and recording of NCS revenues to obtain an understanding of internal controls over the revenue collections. We also documented the revenue collection process for each of the major NCS program areas, including the fee reduction process where applicable. We randomly selected a sample of 1,407 NCS general fund revenue batch postings to FOCUS, and a sample of 275 capital project fund revenue batch postings, and performed detailed audit procedures over each of the individual revenue transactions included in those batch postings. We also selected a judgmental sample of program fee reductions for the senior center annual membership fees, and for the RecQuest after-school program fees, and performed detailed audit procedures on the fee reduction applications.

Findings, Recommendations, and Management Response

1. Outdated Billing, Collection, and Monetary Receipts Processing Plan

At the beginning of our audit, NCS had not received documented approval of its revised billing, collection, and monetary receipts processing plan from the county's Dept. of Finance (DOF). NCS management stated they had submitted their new plan to the county's Dept. of Tax Administration (DTA) for review, but had not followed up with DOF to verify they had approved NCS' policy waiver request to allow smaller recreation centers to make bank deposits or submit monetary receipts and related supporting documents to a contracted courier on a weekly basis rather than daily. During our audit, NCS staff did obtain a temporary approval from DOF to make bank deposits within 48 hours rather than the "next business day" requirement. They also received an updated temporary policy waiver on July 28, 2017 prior to issuing our audit report. NCS staff is continuing to work with DOF on a more permanent policy waiver which addresses the relative risks and available resources for each of the department's programs.

Recommendation: We recommend that NCS continue to work with DOF to update their billing, collection, and monetary receipts processing plan(s) to finalize and implement accepted policies and procedures prior to the expiration of its temporary waiver on December 31, 2017.

Management Response: As of December 2015, DTA had reviewed the updated NCS Billing and Collection plan and forwarded the document to DOF (Department of Finance) for approval. NCS never received any feedback from DOF stating there was an issue with the plan therefore NCS assumed an approved plan was in place. There have been additional updates to the County's Billing and Collection plan therefore

requiring NCS to update the existing plan. In the beginning of FY 2017, NCS started the process of requesting a daily deposit waiver. The most current waiver, is in place until 12/31/17

NCS is in the process of implementing a new electronic registration system, scheduled to go live in spring of 2018. Once this new system is on-board, NCS will continue to rely on DOF to make further recommendations regarding financial processes. NCS expects to have an updated billing and collection plan approved by DOF by April 30, 2018.

2. Timeliness of Bank Deposits

Overall, it took NCS an average of 4.2 business days to deposit general fund monetary receipts in the county's bank accounts. This average included both electronic (credit card and debit card) and cash payments. If electronic payments were excluded, the average number of days to deposit cash receipts would be higher. We further noted that for 98 of the 1,176 general fund cash receipts we reviewed (11.2%), it took more than eight business days for NCS to make the bank deposits. We tracked bank deposits exceeding 8 business days separately, because NCS management had acknowledged that for smaller recreation and teen centers, contracted courier service to pick up cash receipts and related documents were sometimes scheduled for only once a week. Therefore, for these smaller operations, cash receipts were often held in a cash safe or lockbox for at least a week before NCS' central support services staff received them and had a chance to process.

The county's ATB 40070- Processing Monetary Receipts policy document, which was still in effect during the audit period, required that departments that collect monetary receipts for Fairfax County must ensure that all monetary items are deposited to the County's bank accounts no later than the next business day after receipt of funds. ATB 40070- Processing Monetary Receipts was superseded by the current policy document No. FPS 470 Issued: August 2017. This current policy also requires that cash receipts must be deposited within one business day of receipt.

The benefits of timely bank deposits are better safeguards over financial resources, and improved potential interest or investment earnings. The lack of timeliness of bank deposits for cash receipts can increase the opportunity for theft or fraud, and reduce the potential investment earnings of cash resources.

Recommendation: We recommend that NCS take appropriate steps to ensure compliance with either DOF's policy requirements or the requirements of a policy waiver from DOF, for making bank deposits. The policy waiver should incorporate a pragmatic approach based on a cost/benefit analysis to determine the appropriate waiver requirements.

Note: NCS obtained a temporary updated policy waiver from DOF on July 28, 2017 which expires on December 31, 2017.

Management Response: After DOF conducted thorough site visits and were able to see the manner in which NCS processes monetary receipts, they were able to support NCS by offering a waiver in place until 12/31/17.

NCS Managers along with Financial Management staff will ensure program staff understand and are following this policy. Financial Management staff will continue to work with DOF to keep this policy waiver updated as NCS implements the new electronic registration system with a goal of April 30, 2018 for a final waver.

3. Timeliness of Recording Revenues in the County's FOCUS Financial System

Overall, it took NCS an average of 4.6 business days to record general fund revenues in FOCUS after the bank deposit was made. For NCS capital project fund 30010 revenues, the average was 2.6 days. Of the 1,407 general fund monetary receipts we reviewed (both electronic and cash), 1,106 (78.6%) were recorded in FOCUS more than one business day after the bank deposit. Of the 275 capital project fund 30010 monetary receipts we reviewed, which were mostly electronic, 167 (60.7%) were recorded in FOCUS more than one business day after the bank deposit.

We also noted that a substantial delay in recording revenues in FOCUS resulted in some revenues being reported in the wrong fiscal year. NCS collected ten revenue transactions in June, 2015 for classes held at the Sully Senior Center that same month. However, NCS recorded these revenues in FOCUS in August, 2015 as FY 2016 revenues, rather than the correct FY 2015.

The county's former ATB 40070- Processing Monetary Receipts policy document required that departments that collect monetary receipts for Fairfax County must post deposits of monetary receipts by the next business day following the deposit. ATB 40070- Processing Monetary Receipts was superseded by the current policy document No. FPS 470 Issued: June 2016, Amended: November, 2016, Revised August, 2017. The current version of this policy document changed the maximum time requirement for recording revenues in FOCUS from one day to no later than two business days following the deposit of funds.

The lack of timeliness in recoding revenues in the county's financial system delays the comparison and reconciliation of daily revenue receipt logs/reports to the revenues posted to the financial system. This increases the risk for errors or fraud.

Recommendation: We recommend NCS take appropriate steps to ensure compliance with the County's current policy for recording revenues within the required time frame.

Management Response: After seeking guidance from DOF, deposits are now being scanned to the Financial Management section rather than waiting for the original deposit slips to be hand delivered. This recommendation is currently in process as of October 2017.

4. Cash Receipts Documentation

For certain general fund recreational class and trip transportation fees collected at some of the NCS senior center and recreation center locations, we noted several opportunities for improvement for the cash receipts documentation process. Of the 1,176 General Fund cash receipt transactions (includes checks) we reviewed, 177 (15.1%) did not have a cash receipt on file. This was an audit scope limitation, as we could not determine the timeliness of the bank deposit and recording of the revenue in FOCUS. Neither could we validate the revenue amounts recorded in the system. For the cash receipt transactions which did have a receipt or other appropriate form of documentation (e.g., class registration form), 148 (12.6%) were not sufficiently documented for us to be able to validate the bank deposit amount. Additionally, 302 (25.7%) of the receipts were not dated, so we could not determine the timeliness of the bank deposit or recording of revenue for these. This too was an audit scope limitation. We also noted that 352 (30%) of all General Fund cash receipts we reviewed did not include the name of the NCS staff who had first received and/or handled the cash.

We noted far fewer audit exceptions in our review of 57 Fund 300 cash and check receipts. Of the 57 cash transactions, only one (1.8%) did not have a cash receipt on file. Two cash receipts (3.5%) were insufficiently documented for us to validate the deposit amount. These exceptions were an audit scope limitation. We also noted that three (5.3%) of the Fund 300 cash receipts were not dated, and two (3.5%) of them did not include the name of the NCS staff.

Appendix B of ATB 40070- Processing Monetary Receipts, which was still in effect during our audit period, required the issuance of a receipt for an over the counter payment, and that a receipt be signed by the county staff who collected it. For checks received through the mail, the policy required that they be logged in an “established journal”, and recorded as transactions in the cash receipts system, and included in a daily cash/sales report.

ATB 40070- Processing Monetary Receipts was superseded, was superseded by the current policy document No. FPS 470 Issued: August 2017. The current policy has a similar cash receipts requirement, specifying that for revenue collected through a “customer facing” transaction, a receipt must be provided.

The lack of well documented cash receipts can increase the opportunity for theft or fraud, and make it more difficult for staff to research and resolve accounting errors or discrepancies.

Recommendation: We recommend that NCS take appropriate steps in the future to ensure compliance with the county’s current policy requirement for the issuance of receipts for all monetary receipts collected in a “customer facing” process (i.e., over the counter).

Management Response: Staff will be re-trained on the need to issue receipts for all monetary transactions. NCS is in the process of implementing a new electronic registration system, scheduled to go live by April 30, 2018. Once this new system is on-board, a computer generated receipt will be automatically generated resolving this issue in its entirety.

5. Inadequate Cash Receipts for Athletic Field Reservation Fees

For athletic field reservations paid in cash or in person, NCS did not maintain a record of who initially received the payments or the date received. NCS staff did maintain a carbon copy of manually prepared customer receipts. However, NCS' book of carbon copies of manually prepared receipts could not serve as a complete record of cash receipts, as staff explained that they issued such a receipt only upon customer request. Therefore, some of the cash transactions had no manually prepared receipt.

In the absence of complete cash receipts records, we were unable to determine when checks, money orders, or currency were received and whether they were deposited at the bank in a timely manner. The AFSS system does generate a receipt for every posted revenue transaction, but the system data field labeled as the receipt date is really the date the transaction was posted to AFSS, but not necessarily the date the revenue was received.

It should be noted that there were no issues regarding the ability to validate revenue receipt dates for payments that customers made electronically, as all electronic payments were processed through the county's Govolution process, which produces a report that indicates both the transaction date and the bank deposit date.

ATB 40070- Processing Monetary Receipts, which was in effect during our audit period, recommended that checks (and presumably money orders) received through the mail be logged in an "established [cash] journal" or check log when the mail is opened, and that the batch total of cash receipts for the day be [compared] and matched to the cash/checks log. Also, for over the counter monetary receipts, a receipt must be provided to the customer which is signed by county staff with the county department and division names filled in, with a white carbon copy attached to the daily cash sheet, and the pink copy retained by the collecting agency.

Recommendation: Although the county's current policy document No. FPS 470 Issued: August 2017 appears to have eliminated the policy requirement of former ATB 40070- Processing Monetary Receipts that checks and money orders received through the mail be logged in an "established journal," we still recommend the use of such a record of cash receipts as an effective internal control practice for programs which do not utilize an electronic cashiering system. The cash journal can be in manual or electronic format and should contain the amount received, the customer name, purpose of the payment and the payment type (check, money order, or currency). Each cash receipt record should also be signed and dated by the NCS staff who initially received it. If it is not feasible to implement this recommendation, then the department should consider implementing a compensating control, such as requiring staff opening the mail to use a check endorsement stamp which utilizes an

electronic date/time feature. The use of an electronic endorsement stamp with date/time feature would provide a stronger audit trail of the cash receipts date, and timeliness of bank deposit.

Management Response: As of October 2017 this recommendation for mailed and in person payments was implemented during this audit. All payments for athletic field/gym reservations received by U.S. mail are now date stamped. Payment information is now entered in a Daily Receipts When the payment is entered into AFSS, a receipt is automatically generated and e-mailed to the customer.

Athletic field/gym reservations paid in person (cash, check or money order) are recorded in a receipt book with carbon copies. The original receipt is given to the customer. When the payment is entered into a receipt is automatically generated by AFSS and e-mailed to the customer.

6. Insufficient Documentation of Fee Reductions

NCS was not able to support the fee reduction amounts granted to RecRequest program participants. Nearly all (95%) of the 20 RecRequest fee reduction applications in our audit sample were not sufficiently documented to validate the applicant's income eligibility for the amount of fee reduction granted by NCS staff. 18 (90%) of the 20 reduced program fees we reviewed were less than the minimum allowable fee indicated by the sliding scale fee structure included on the application forms. The majority (75%) of the reduced fee applications did not have documented approval by NCS management. We also noted inconsistent and conflicting practices and documentation among the community centers regarding the application and approval process for RecRequest fee reductions. For example, three of the four community centers we selected for our audit sample utilized a standard program fee reduction application form which included a sliding scale fee structure, with the minimum weekly fee for participants in the lowest salary ranges specified as \$30/week for the first child, and \$25/week for additional children. The other community center used a different reduced application fee, which did not utilize a sliding scale fee structure, but instead had the three fee categories of: 1. Free; 2. Reduced; and 3. Non-reduced. We noted that 17 of the 20 reduced fees we reviewed were \$10/week, which was not an amount specified on the reduced fee application forms from any of the community centers we reviewed.

During our review of 20 fee reduction applications for the senior center annual membership fees, we noted several instances where applications forms were not completed or approved by required NCS staff, or the documents to validate the applicant's income eligibility for a fee scholarship were not sufficient. Of the sample of 20 senior center fee scholarship applications, we noted that eight (40%) of the applications were not supported by documents sufficient for us to validate income eligibility. Three of the eight applications were supported by a memorandum from the County's Dept. of Housing verifying eligibility for public housing assistance, but none of the Memoranda were dated. Therefore, we could not determine if the Housing department's memoranda were within the one-year acceptable validity period, or if they had expired. Also, three (15%) of the application were not signed by NCS staff,

and two (10%) of the application forms were not approved by the senior center director, as required.

Additionally, NCS acknowledged that the department had not implemented any formal application and approval process for reduced fees for the teen center during the audit scope period. Also, NCS had not implemented a formal process for validating participant's income qualifications for reduced fees for the therapeutic recreation programs either.

The NCS' "Class and Trip Fee Guidelines (adopted January 2014)," document states that applicants for reduced fees (scholarships) must meet certain income eligibility requirements (not exceeding 200% if current federal poverty level guidelines), and that income verification for all participants requesting a subsidy will be completed on an annual basis. Lax adherence to the fee reduction eligibility guidelines and documentation requirements can create an opportunity for otherwise non-eligible program participants to be improperly granted fee reductions. Additionally, improperly documented or unapproved fee waivers increase the risk for fraud.

Recommendation: We recommend that for the RecQuest program, where the volume and dollar value of fee scholarships is substantially higher than many other NCS programs, that NCS take appropriate steps in the future to ensure compliance with its internal guidelines regarding the documentation of income eligibility for fee scholarships. Internal guidelines and application forms should be consistent and updated to reflect any changes to NCS fee structures and requirements.

Management Response: NCS will review and update internal guidelines for documenting income eligibility for fee variances and fee waivers, and ensure guidelines and registration forms are consistent, and reflect any changes to fee structures and requirements. NCS will also make process adjustments and train staff to provide consistent implementation practices regarding the application and approval process for fee reductions. Expected completion date is May 1, 2018.

7. Access to Safes and Deposit Boxes

NCS did not comply with county policies requiring dual access to cash safes, and the changing of safe combinations and/or locks annually. We observed that two NCS staff located at the department's Pennino building location were able to open their respective cash safes by themselves. During our interviews with NCS management to assess internal controls, it also came to our attention that NCS does not annually change the combination and/or lock to in the cash safes and lockboxes located at any of the NCS locations, nor do any of the NCS safes or lockboxes require dual access. NCS management advised us that they try to change the locks and/or combinations to safes or lockboxes when a staff member with access to the safe terminates employment with NCS, but that this has not always been feasible, and has not been consistently practiced.

ATB 40070, Processing Monetary Receipts, which was in effect during the audit period, included a provision that safe or vault combinations should be changed whenever a staff member who has access to the combination leaves the employment

of the department. The current policy document No. FPS 470 Issued: August 2017 has the same requirement, and requires that combinations or locks to safes be changed annually.

Not changing the safe combination when a staff member who knows the combination leaves or no longer has the authorization, increases the risk of theft by unauthorized employees accessing the safe. Finally, non-compliance with policies related to safeguarding petty cash increases the risk for errors, theft or fraud.

Recommendation: We recommend NCS comply with the county policy for changing lock or combinations to cash safes and lockboxes as required. If the requirement is not operationally feasible, NCS should provide DOF with a justification to seek a waiver.

Management Response: NCS will ensure staff are trained on internal controls for access to safes. NCS will also establish an annual “change your safe combination” date. Expected completion date is January 31, 2018.