



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **MANAGEMENT ACTION PLAN PROGRESS REPORT**

DATE: May 21, 2015

TO: Jim Gray, 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  
Geoff Reed, Commissioner of General Services  
Rusty Cook, Director of Revenue  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Teresa Gipson, CFE, Internal Auditor

RE: ESP Collections & Disbursements Management Action Plan Progress Report

### **EXECUTIVE SUMMARY**

On September 10, 2013 the Office of Internal Audit issued the Extended School Program (ESP) Collections & Disbursements Follow-up Review. The 2013 report contained several findings related to ESP internal control weaknesses. This follow-up review was conducted to evaluate controls put in place by management to address those findings from the September 2013 report.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. The period of review included ESP collections from July 1, 2014 through January 31, 2015.

A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding or Risk Observation	Summary of Original Finding	Follow-Up Results
Finding 1 High Priority	ESP Delinquent Account Collection Process Needs Improvement	ESP Delinquent Accounts Procedure and ESP Law Collections Procedure have been established. Communication regarding NSF check activity can be improved, and client credit balances should be researched and resolved.
Finding 2 High Priority	Deposit Procedure Violations Noted	Late deposits decreased from 20% to 12% but improvement still needed. Endorsement of all checks still needed.
Finding 3 High Priority	Scholarship Approval Process Needs Procedure to Provide Consistency	Scholarships were completed and approvals documented. Improvement is still needed in generating an accurate listing of scholarships from ProCare.
Finding 4 High Priority	Month-End and Yearly Closing Procedures Should be Consistently Followed	We noted that expenditures from the previous fiscal year (FY 2014) had been paid in FY 2015.
Finding 5 High Priority	Petty Cash Needs Improved Security	Petty cash has been reduced and is maintained in a lockbox inside a locked desk drawer. This finding has been resolved.
Finding 6 High Priority	ESP Fund Account Coding Issues Noted	ESP management has not initiated any meetings with the Division of Accounting to address fund account coding needs.

Risk Observation	On-line Payment Program Recommended	Kentucky Interactive (KI) has been obtained to provide electronic payment processing for LFUCG. The Division of Enterprise Solutions will issue an RFP to obtain a direct pay system that interfaces with KI to eliminate manual account posting in ProCare.
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## ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

### **Original Finding #1: ESP Delinquent Account Collection Process Needs Improvement**

**Priority Rating: High**

#### **Condition:**

There are no written procedures to provide consistency in ESP delinquent account collection efforts. As a result, the delinquent account collection process is disjointed and difficult to effectively manage.

The ESP Program currently requires that parents bring their accounts to zero about four times per year to manage outstanding balances. Although ESP management considers this requirement to be fairly effective in collecting on past due accounts, they have also discovered during their reconciliation of payment activity that returned checks are highest during these time periods. Returned checks are received by the Division of Revenue which contacts the payors requesting repayment, but if repayments are not received Revenue refers the accounts to the County Attorney and ESP management is not notified of the delinquent check payors. In addition, the Department of Law takes legal action for ESP accounts with past due balances of \$150 or more, but we noted that Law's disposition of delinquent accounts is not consistently communicated to ESP management. For example, our detail testing noted that 7 of the 28 accounts tested (25%) that were 90 to 120 days overdue had no documentation on file to indicate action was being taken by either ESP or the Department of Law to collect the past due amounts.

ESP management does not write off any accounts as uncollectable, and therefore such accounts carry forward indefinitely and are eventually reflected on the Accounts Receivable Aging Report as past due for 120 or more days. ESP management explained that by not writing off accounts they are able to identify delinquent accounts and collect on their unpaid balances if the participants later attempt to register another child with the same home address. As of May 26, 2013, the ESP Accounts Receivable Aging Report indicates that

\$92,390 of the \$149,404 total balance (61.8%) was at least 120 days past due, compared to \$46,908 (31.4%) that were current. Per ESP management, this report essentially reflects account activity going back to at least 2006.

**Effect:**

The issues noted above indicate significant challenges in the management of delinquent accounts. Delinquent accounts can place a financial strain on ESP services due to revenue projections not being met. Failure to make timely adjustments to delinquent account balances due to the lack of communication and coordination between ESP and other LFUCG collection functions could result in participants being unnecessarily removed from the ESP program.

**Recommendation:**

ESP management should establish written procedures for debt collection that would incorporate a systematic and consistent collection process with coordination between ESP management, the Department of Law, and the Division of Revenue. These written procedures should specify the number of days and/or the maximum outstanding account balance before collection efforts are implemented, and should develop criteria for account write-offs, the issuance of late notices, and the submittal of past due accounts to Law for collection. ESP management should request the Division of Revenue submit to them a monthly list of unresolved returned check payors to assist in removing these accounts from the enrollment list. ESP management should also request the Department of Law submit to them a monthly report regarding Law's disposition of delinquent accounts to assist in removing or reinstating these accounts on the enrollment list.

It is also recommended ESP management establish a process to write off accounts that are deemed uncollectible in order to remove them from the Accounts Receivable Aging Report, thereby making it a more effective management tool. Accounts that are written off should not be removed from ProCare's database; rather, they should be zeroed out with notation made in the account that they are deemed uncollectible. This will clear the uncollectible account from the Accounts Receivable Aging Report but will retain it within ProCare's database. In the event a former participant attempts to enroll another child, a ProCare name search should still reveal the unpaid balance of the uncollectible account, and payment of the outstanding balance can still be required before another child is allowed to enroll.

The ESP FY 2013 unaudited revenue total was \$2,380,401 with an unaudited ending fund balance of \$123,212. If significantly past due or uncollectible accounts remain a significant issue once the recommended procedures are in place, ESP management may wish to reevaluate its fee structure to determine if it can be adjusted to increase program affordability while remaining a self-sufficient Enterprise Fund.

**Director of Parks and Recreation Response:**

A written policy has been developed for delinquent fees and distributed to all District Directors. In addition, ESP will follow a process for the removal of uncollectable accounts. Any account over 120 days old with no reasonable expectation of collectability will be zeroed out with a notation for further collection in the event of future enrollment. ESP will make every effort to collaborate with the patron before turning the account over to collections.

ESP Management is open to more extensive coordination with both the Department of Law and Division of Revenue in regards to accounts with returned checks and law accounts. Written policy is attached.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

We determined that a written procedure, the ESP Delinquent Accounts Procedure, was developed for delinquent fees and distributed to all District Directors. The procedure states that ESP will follow a process for the removal of uncollectable accounts, account over 120 days with no reasonable expectation of collectability, and will be zeroed out with a notation for further collection in the event of future enrollment. ESP management indicated the process to flag accounts in ProCare needs to be documented before accounts can be written off.

ESP management has also established a written procedure, the ESP Law Collections Procedure, to manage their internal handling of delinquent accounts. We examined 34 accounts whose past due balances the Law Department is trying to collect. We noted that all 34 account holders had been sent a letter indicating the outstanding balance to be paid. Most of the accounts indicated no response and a second letter had been sent, while two accounts had promissory notes established. The Law Department communicates with ESP management when a case closes, goes to a collection agency, or the account has been paid in full. The Division of Revenue notifies ESP personnel whenever they become aware that an ESP client has written an NSF check, but stated that ESP personnel do not always inform Revenue when an ESP client makes a payment at an ESP site that is intended to cover an NSF check the client had previously written.

We also noted during our review of the Aging Report that there are 61 ProCare accounts with credit balances ranging from \$45 to \$392. According to their designation in ProCare (i.e., Hidden), these accounts are inactive. We recommend that ESP research these accounts and determine if credits should be issued to account holders, if applicable, or set to zero to remove them from the Aging Report.

**Commissioner of General Services Response:**

ESP has spoken with the Division of Accounting in regards to including the ESP Manager into all notifications of returned checks that are being sent to the Division of Revenue for further collection. ESP will review returned checks with the Division of Revenue by the 5<sup>th</sup> of each month to obtain the status on all returned checks on hand. Many of the inactive credit account balances date back prior to the purchase and installation of the current version of the tuition software. The prior software version was not able to be adjusted when refunds were issued. Accounts prior to the software update are being zeroed out. Accounts that have been active since the update are being reviewed. Many have been found to have had a refund issued and just not noted in the software. These have been corrected.

**Director of Revenue Response:**

The Division of Revenue will participate with ESP personnel in the monthly discussion of returned checks, and will also inquire whether any NSF checks written to ESP are covered by subsequent client payments received at the ESP sites. This will allow Revenue to update its records and Revenue will, when appropriate, notify the County Attorney of remedial payments received on accounts sent to him for collection.

**Commissioner of Finance & Administration Response:**

Finance supports the additional action items in Accounting and Revenue.

**Original Finding #2: Deposit Procedure Violations Noted**

**Priority Rating: High (Repeat Finding from 2011 Audit)**

**Condition:**

Some ESP deposits were not made within two days to comply with CAO Policy #40 (Policy & Procedure for Cash & Check Handling). Twenty percent of the transactions tested were deposited from 3 to 8 days late with the majority of late deposits occurring in July 2012. One deposit did not contain the Weekly Ledger Sheet to be completed by the Site Manager, and therefore there was no sign off from the Site Manager or District Director confirming the deposit amount received. We also noted during the early stages of our deposit testwork that checks are not endorsed at the point of receipt by the ESP Site Directors. Per CAO Policy #40, all funds should be presented to the Revenue front counter within two business days for the outlying locations, and all checks are to be immediately endorsed upon receipt.

We also noted that credit card deposits were not recorded in PeopleSoft on a timely basis. The credit card terminal is closed out automatically each night but collections were not entered in PeopleSoft on a daily basis until after audit fieldwork had begun. In addition, there were missing credit card tapes for a credit card deposit occurring in December 2012. Although the deposit amounts were eventually traced to ProCare and PeopleSoft, this process was problematic in the absence of the credit card tapes.

**Effect:**

Late deposits and the failure to restrictively endorse checks are a violation of CAO Policy #40 and unnecessarily exposes cash and checks to the possibility of loss or theft. Not posting credit card payments in PeopleSoft on a daily basis may increase undetected errors and the time required for reconciliation.

**Recommendation:**

All deposits should be made within two business days and all checks be restrictively endorsed upon receipt to comply with CAO Policy #40 (Policy & Procedure for Cash & Check Handling). Credit card deposits should be entered into PeopleSoft on a daily basis.

**Director of Parks and Recreation Response:**

The ESP Courier schedule has been adjusted so they collect checks daily from all sites. Site Directors have been informed to have deposits ready at a set time and they have all received stamps and are endorsing checks as they are received. Credit Cards will be entered into PeopleSoft daily at the start of each business day.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

We tested some deposit transactions to determine if there was timely deposit. We noted that 7 of 57 (12%) deposits tested were deposited from 1 to 7 days late, with five of these deposits being only one day late. This demonstrates improvement over the late deposit activity previously noted in the 2013 report; however, CAO Policy #40 states that all deposits should be made within two business days. We also noted checks were not always endorsed prior to being submitted for deposit as required by CAO Policy #40. We recommend that ESP management consistently verify the endorsement of checks and retrain staff where appropriate to ensure consistent compliance with CAO Policy #40.

**Commissioner of General Services Response:**

ESP is having all staff involved with tuition payments review the Handling of Weekly Tuition Procedures. ESP Staff Assistant will document and notify ESP Manager of any checks from sites without endorsements. Verbal and written reprimands will be issued to personnel from sites missing endorsements. ESP strives to follow CAO Policy #40. To do so, ESP has implemented a daily deposit pick-up from all sites by hiring a courier to retrieve deposits and bring to the office. Deposits are dropped off after office hours and are worked the next business day.

**Original Finding #3. Scholarship Approval Process Needs Procedure to Provide Consistency**

**Priority Rating: High**

**Condition:**

ESP Scholarships are provided to parents on the basis of need to reduce the cost of weekly tuition, but there are no written procedures to provide consistency within the Scholarship approval process administered among the various ESP sites. Our detail testing noted that documentation was not maintained for four of twenty-five (16%) students to determine their eligibility for the scholarship, and two of those students also did not have their scholarship application form signed. There were four additional students out of the twenty-five tested who had documentation to support the scholarship need (i.e. Medicaid) but the scholarship application was not signed by either the parent and/or ESP Manager.

**Effect:**

Scholarship requests that are processed without evidence of supporting documentation and management approval increase the risk of incorrect or unauthorized scholarships.

**Recommendation:**

A written procedure should be incorporated into ESP Policies and Procedures detailing the requirements for Scholarship eligibility, documentation standards, and approvals.

**Director of Parks and Recreation Response:**

A written policy for Scholarship Eligibility has been developed and distributed to all District Directors. Written policy is attached.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

We reviewed all applications for scholarships completed for the 2014/2015 school year. We noted that applications were complete and signed by parents and ESP personnel. Additionally, all qualifying documents were attached.

We also generated a list of scholarships from ProCare and compared it to the scholarships on file in the ESP office. There were 15 applications on file that were not identified on the ProCare list. We were able to determine that the scholarship fee was being charged as noted on their account ledgers. We also noted that there were accounts on the ProCare list that were not included in the scholarship file maintained in the ESP office. ESP management indicated that there are several locations in ProCare to designate scholarship status and due to a staffing vacancy, ProCare had not been adequately updated for the current school year. We recommend that scholarship designations in ProCare be updated to reflect only the scholarships currently in effect. This will provide a current record of all scholarships provided through the program as a whole, and may provide opportunities to optimize enrollment at low income schools through increasing the total number of scholarships offered.

**Commissioner of General Services Response:**

ESP Manager has reviewed software and corrected the issue. Please see Scholarship Policy attached.

**Original Finding #4. Month-End and Yearly Closing Procedures Should be Consistently Followed**  
**Priority Rating: High**

**Condition:**

A petty cash reimbursement request submitted on or after August 14, 2012 contained 14 receipts from June 2012. The deadline for processing payments for FY 2012 was July 13, 2012. We also noted that a credit card deposit for August 14, 2012 included transactions going back to July 24, 2012. Generally Accepted Accounting Principles (GAAP) matching principles require that LFUCG revenues should be recorded in the accounting period (i.e. month and year) when earned, and expenses should be recorded in the accounting period when a liability is incurred.

**Effect:**

Failure to post revenues and expenditures on a timely basis is a violation of the GAAP matching principle. Such delays may also increase the time required to identify errors during the reconciliation between ProCare, PeopleSoft, and the related bank statement.

**Recommendation:**

All outstanding petty cash receipts should be submitted to Accounting for reimbursement prior to the close of the fiscal year. Deposit activity should be entered in PeopleSoft daily to prevent the comingling of several days' deposits. This ensures compliance with GAAP requirements and expedites the reconciliation and record keeping process in Accounting.

**Director of Parks and Recreation Response:**

A deadline for year end activity will be set and distributed to all pertinent staff. Petty Cash receipts will be required before the fiscal year close. Credit cards will be entered daily as per recommendations set forth in Finding #2.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

We selected a sample of expenditures submitted for petty cash reimbursement during FY 2015. We noted fourteen expenditures occurring from April 2014 through June 2014 that were not submitted to Accounting for reimbursement until either July 28, 2014 or October 15, 2014. Per Accounting management, the deadline to submit Petty Cash FY 2014 reports was July 11, 2014, which was communicated to all Divisions prior to year end by the Division of Accounting. These expenditures should have been submitted for reimbursement in FY 2014. We recommend that ESP management request all petty cash receipts from their satellite offices be submitted prior to year end for prompt processing in compliance with the Accounting Department's year end close schedule.

**Commissioner of General Services Response:**

ESP has filled Staff Assistant Sr. position on June 30<sup>th</sup>, 2014. This staff is aware and has been given Year-End closing information.

**Original Finding #5. Petty Cash Needs Improved Security**  
**Priority Rating: High**

**Condition:**

ESP maintains an \$800 petty cash fund in a locked cash box which is stored in an unlocked desk drawer during business hours. While a locked cash box does provide some security, it is possible for the cash box to be removed without management's approval. Division of Parks & Recreation management indicated during audit fieldwork that the petty cash limit should be reduced due to the issuance of ProCards.

**Effect:**

Insufficiently safeguarding cash at all times creates the risk of loss or theft of funds.

**Recommendation:**

The petty cash lockbox should be stored in a locked desk drawer or filing cabinet at all times. We also agree with Parks management that the ESP petty cash fund should be reduced.

**Director of Parks and Recreation Response:**

The petty cash fund will be safeguarded more closely by keeping the desk drawer where it is stored locked at all times. ESP Management will purchase a safe that can accommodate the lock box. The petty cash fund will be reduced to \$500.00

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

We performed a walkthrough and noted that petty cash is maintained in a lockbox inside a desk drawer that is locked. Additionally, we also noted that the petty cash fund amount had been reduced from \$800 to \$500 as previously stated by management. This finding has been resolved.

No management response required.

**Original Finding #6. ESP Fund Account Coding Issues Noted**

**Priority Rating: Low**

**Condition:**

ESP incurs costs for services such as annual license fees required for each ESP site, activity fees, and field trip admission fees. Management codes to Office Expense and Supplies because the LFUCG Chart of Accounts does not contain an account code that truly matches the nature of these expenditures. We also noted that costs such as daycare training are charged to Professional and Contract Services instead of Professional Development. ESP's FY 2014 Approved Budget contains \$61,530 for Professional Services-Other and only \$1,120 for Required Certification/Training.

**Effect:**

The accurate reporting of ESP expenditures is compromised by the absence of or failure to use the most appropriate account codes.

**Recommendation:**

We recommend ESP management coordinate with the Division of Accounting to create additional account codes designed to improve the financial reporting of the ESP Program. We also recommend ESP management determine if a budget amendment is needed to reclassify some of the Professional Services-Other funding to Required Certification/Training to more accurately account for their training costs.

**Director of Parks and Recreation Response:**

ESP agrees that account code utilization needs to be improved. We will meet with Accounting within 30 days to resolve this issue and provide budget amendments to current budget if necessary.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

ESP management stated that they have not initiated any meetings with the Division of Accounting regarding establishing specific fund account coding relevant to the ESP program. ESP management indicated that the ESP Manager has only been in the position for about six months and the Director's position has been vacant. ESP management indicated that circumstances have combined to help delay resolving this finding.

**Commissioner of General Services Response:**

ESP will contact the Division of Accounting to see if they are open to discussing account coding issues.

**RISK OBSERVATION**

Standards for the professional practice of internal audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with the ESP Program but does not represent a violation of statutes, policies, or procedures. It is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

**Original Risk Observation: On-line Payment Program Recommended**

According to ESP management, approximately 38,000 checks are received each year for payment of tuition fees. Such payments are received and manually logged by ESP on-site

Directors and then processed for payment by District Managers in the main office at Dunbar using a remote check scanner that deposits directly into the bank. This coordination of effort requires the handling of the physical checks, involves several individuals' time and effort, and includes the risk of lost or stolen checks. The ProCare software used for managing ESP accounts has the capability to accept on-line payments, but that functionality is not being used. ESP management should request assistance from the Division of Computer Services in exploring the cost and internal requirements for activating ProCare software capabilities that will enable ESP participants to make electronic payments and monitor their program accounts. This will also reduce, perhaps significantly, the amount of on-site payments that have to be received and secured by site employees.

ESP Management is in agreement that the program should offer on-line payments for their families. The program will coordinate with Computer Services and explore which electronic payment program will best serve their needs and the needs of the families they serve, and budget for this software in FY15 if necessary.

**Commissioner of General Services Response:**

Concur with the Director's response.

**Follow-Up Detail Results:**

ESP management has been working with the Division of Enterprise Solutions to devise a software program that could perform on-line payment processes. The Division of Enterprise Solutions has obtained the services of Kentucky Interactive (KI) to provide universal electronic payment processing for LFUCG. However, the current software system used by ESP (ProCare) does not interface with KI. Enterprise Solutions management indicates they will work with ESP management to develop specifications for a Request For Purchase (RFP) to obtain a direct pay system that will interface with KI and eliminate ProCare's manual account posting currently required of ESP staff.

**Commissioner of General Services Response:**

ESP will work with the Division of Enterprise Solutions to implement a direct pay system with KI and eliminate manual account postings.



Lexington-Fayette Urban County Government  
DEPARTMENT OF GENERAL SERVICES

Jim Gray  
Mayor

Geoff Reed  
Commissioner

## ESP Partial Scholarship Approval Procedure:

In order to operate equitably, ESP needs to ensure all requests for partial scholarship are handled in a consistent manner. 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. The following forms will be accepted as proof of need.

- Food Stamps/SNAP
- Medical Card >(Passport, WellCare, Coventry Cares, or Humana Care Source)
- Active Military
- Free/Reduced lunch verification (must include parent/child name)
- Other government assistance (i.e. HUD)
- Foster Child (billed to care-giver)

Scholarship approval is based on completed requests and availability at program sites. ESP is allowed 1 scholarship per every 10 students enrolled. At programs where the school has a 70 % or greater free/reduced household income qualifier ratio, three additional scholarships will be permitted.

ESP Supervisors along with the ESP Manager are allowed to approve scholarship requests. Once a scholarship is approved it must be noted in the tuition software and handed to the ESP Staff Assistant to maintain for record keeping.

Please note Scholarships must be renewed for school/summer and cannot be carried over. Once schoolyear/summer ends, software notations of scholarship must be removed.