



Arlington County, Virginia

Internal Audit Report – Funds Handling Cycle Audit
Department of Human Services: Child and Family
Services and Financial Management Bureau

Report Date: February 6, 2017



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February 6, 2017

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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the Funds Handling Cycle Audit: Department of Human Services (“DHS”) Child and Family Services (“CFS”) and Financial Management Bureau (“FMB”). Our report is organized in the following sections:

| | |
|--------------------------------|--|
| Executive Summary | This section gives a background summary of the function and a detailed description of the issues noted during this cycle audit, recommended actions, and management’s corrective action plan, including the responsible party and estimated completion date. |
| Background | This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements. |
| Objectives and Approach | The cycle audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. |
| Process Maps | This section illustrates process maps, which identifies data flow, key control points and any identified gaps. |

As described in our objectives and procedures outlined on page 9 of this report, the issues noted are based on our analysis of the processes, documents, records and information provided to us by the County. This cycle audit focused on evaluating the soundness of internal control policies to safeguard assets and on reviewing compliance with County policies. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting RSM US LLP in connection with this Funds Handling Cycle Audit.

Respectfully Submitted,

RSM US LLP

Executive Summary

Executive Summary

Funds handling involves those activities performed to process cash collection transactions (cash is defined as actual cash and checks) in the ordinary course of business. Arlington County's funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. The County's Department of Management and Finance ("DMF") developed a county-wide Funds Handling Policy, effective January 2016. DHS has documented procedures to supplement areas of the county-wide Funds Handling Policy. Recommendations made within this cycle audit will further enhance DHS's procedures.

The scope of this cycle audit encompassed the process at its current state of the Child and Family Services and Financial Management Bureau collection points within DHS. There are seven (7) collection points within DHS. Six (6) of those collection points reside within the varying Divisions/Bureaus within DHS that provide services to County residents: Child and Family Services, Aging and Disability, Behavioral Health, Economic Independence, and Public Health, which has two (2) collection points. The seventh collection point is within the Financial Management Bureau, which serves as the administrative function for DHS and the central repository for all funds collected and recorded in DHS.

This cycle audit included a sample from the population of cash collections for Fiscal Year 2016 from July 1, 2015 to June 30, 2016 from the selected collection points for the purpose of transactional testing. For the purposes of this project, cash is defined as actual cash and checks. The cycle audit covered the funds handling process up to and including recording revenue in the County's general ledger within PRISM, and reconciliations of related accounts used to record revenue collections. The primary objectives of this cycle audit included the following:

- Analyze and assess design of existing process and internal controls for adequacy over funds handling; and
- Review compliance with departmental policies and procedures as they relate to funds handling, if any.

A detailed listing of the issues identified and their relative risk ratings is provided in this report, including recommendations and management's response(s). We have assigned relative risk factors to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the operations. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

- *High Risk Items* are considered to be of immediate concern and could cause significant operational issues if not addressed in a timely manner.
- *Moderate Risk Items* may also cause operational issues and do not require immediate attention, but should be addressed as soon as possible.
- *Low Risk Items* could escalate into operational issues, but can be addressed through the normal course of conducting business.

Executive Summary – continued

| Issues | Risk Rating |
|--|-----------------|
| 1. Segregation of Duties/User Access | Moderate |
| <p><u>User Access:</u> A formalized process does not exist for the performance of periodic reviews of existing user access rights for the Cerner/Anasazi system of record for reasonableness and necessity.</p> <p>The absence of a formalized review process around user access rights increases the risk that access rights are inappropriate for current employee roles or are granted to employees no longer associated with the Department and/or County.</p> | |
| <p style="text-align: center;">Recommendation</p> | |
| <p>We recommend that user access be reviewed, on at least an annual basis, and updated as needed by a properly designated resource independent of IT DHS for the Cerner/Anasazi system of record.</p> | |
| <p style="text-align: center;">Management's Response</p> | |
| <p>Response: We agree with the recommendations. Our current process will be revised to include an annual review as well as updates such as personnel changes. The review will be conducted by DHS program supervisors and DHS IT.</p> <p>Responsible Party: Finance and Information Systems Division Chief</p> <p>Estimated Completion Date: September 30, 2017</p> | |

Executive Summary – continued

| Issues | Risk Rating |
|--|-----------------|
| 2. Frequency of Deposits | Moderate |
| <p>The County’s Funds Handling Policy under Physical Safeguards and Access to Funds, states that <i>“Where feasible, deposits should be made daily, but no later than five working days after initial receipt. Undeposited funds should not exceed \$250.”</i></p> <p>We noted the following during our testing:</p> <ul style="list-style-type: none"> • Per inquiry with DHS, all collection points are required to deposit their funds and related records to FMB on the business day following collection of the funds. We tested 10 days and noted three (3) instances where the cash collected by CFS was not deposited to FMB as designed. • There was one (1) instance where the CFS funds were received on 5/2/2016 and 5/3/2016, and were deposited in the bank on 5/12/2016. According to the policy, these funds should have been deposited on 5/5/2016. Our understanding is the employee who is responsible for preparing the deposit was on sick leave. When FMB performed their weekly deposit reconciliation that compares funds received and logged against funds posted to the system of record, they identified the deposit was not processed as required. This error was immediately noted and documented during that week’s reconciliation process, and included in the next week’s deposit. • Cash collections are deposited into the bank account by FMB each Thursday. The deposit includes monies received directly from clients as well as from other bureaus for the prior five (5) business days (Wednesday through Tuesday). This process is not consistent with the County’s policy as the prior Tuesday receipts are not deposited in the bank within five business days (i.e. a Thursday deposit is more than five working days from the prior week’s Tuesday). <p>Delays in the frequency of deposits and the dollar value of those funds undeposited increases the risk of misappropriation of funds, resulting in loss of revenue and inaccurate records.</p> | |
| Recommendation | |
| <p>We recommend the following:</p> <ul style="list-style-type: none"> • DHS modify documented procedures to include the requirement that all collection points within DHS are required to deposit their funds and related records to FMB on the business day following collection of the funds. • Modify procedures to facilitate that funds are properly deposited in accordance with the County’s Funds Handling Policy, and implement back-up procedures to address situations such as employee absences, etc. • DHS provide additional training and guidance to persons handling funds, where needed, to facilitate that the County’s Funds Handling Policy and Department specific procedures are being followed as required. <p>Furthermore, we are recommending in Issue #3 that the County’s Funds Handling Policy under Physical Safeguards and Access to Funds, further define “initial receipt”, and distribute the revised policy to all affected departments. The recommendation in Issue #3 is that “initial receipt” be defined as the date the funds are collected from an external client or third-party payor, whether in person, in the mail or over the phone.</p> | |

Executive Summary – continued

| Issues | Risk Rating |
|--|-------------|
| 2. Frequency of Deposits - continued | Moderate |
| Management's Response | |
| <p>Response: We agree with the recommendations. The DHS Funds Handling Policy will be modified to include deposit deadlines (in coordination with the County Comptroller), clearly define "initial receipt" and include back-up procedures to address situations such as employee absences. DHS staff with cash handling responsibilities will be trained on the County's Funds Handling Policy and the revised DHS policy.</p> <p>Responsible Party: Finance and Information Systems Division Chief</p> <p>Estimated Completion Date: Full development and implementation of the revised DHS Funds Handling Policy will depend on updated County policy and will be completed within 45 days of the County's overall policy being updated.</p> | |

Executive Summary – continued

| Issues | Risk Rating |
|--|-----------------|
| 3. Clarification to Funds Handling Policy – County-Level | Moderate |
| <p>The County's Funds Handling Policy under Physical Safeguards and Access to Funds, states that <i>"Where feasible, deposits should be made daily, but no later than five working days after initial receipt. Undeposited funds should not exceed \$250."</i></p> <p>Per inquiry with DHS:</p> <ul style="list-style-type: none"> Initial receipt is defined as when FMB receives funds from the various departmental collection points, rather than when the funds are physically received from the client. DHS's procedure is for the collection points to submit funds received from clients to FMB on the day following collection. Each Thursday, all cash collected from the previous five (5) business days (Wednesday through Tuesday) are accumulated and deposited to the bank by FMB. As such, funds collected at the various collection points on Tuesday will generally be submitted to FMB on Wednesday, and therefore will not be deposited at the bank until the following Thursday (six (6) business days after the funds have been received from the client). DHS considers that when cash is submitted to FMB it is no longer defined as undeposited. As such FMB regularly holds cash balances of greater than \$250. <p>Ambiguity in policy can allow for various interpretations. Delays in the frequency of deposits and the dollar value of those funds undeposited increases the risk of misappropriation of funds, failure to record transactions on a timely basis, resulting in loss of revenue and inaccurate records.</p> | |
| Recommendation | |
| <p>We recommend that DMF clarify the County's Funds Handling Policy under Physical Safeguards and Access to Funds Policy as follows:</p> <ul style="list-style-type: none"> Define "initial receipt" as the date the funds are collected from an external client or third-party payor, whether in person, in the mail or over the phone. Define that funds are considered deposited once physically deposited in the bank. | |
| Management's Response | |
| <p>Response: DMF will make recommended changes to the County's Funds Handling Policy to clearly define "initial receipt."</p> <p>Responsible Party: DMF Comptroller</p> <p>Estimated Completion Date: May 30, 2017</p> | |

Background

Background

Overview

Funds handling involves those activities performed to process cash collection transactions (cash is defined as actual cash and checks) in the ordinary course of business. For the purposes of this project, cash is defined as actual cash and checks. Arlington County's funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. DMF has developed a county-wide Funds Handling Policy, effective January 2016, which requires all employees that handle funds sign an *Authorization to Handle Funds Form* stating that they had read and understood the County's Funds Handling Policy. DHS has documented procedures to supplement areas of the County-wide Funds Handling Policy specific to their line of business.

There are seven (7) collection points within DHS. Six (6) collection points reside within the varying Divisions/Bureaus within Human Services that provide services to County residents: Child and Family Services, Aging and Disability, Behavioral Health, Economic Independence, and Public Health, which has two (2) collection points. The seventh collection point is with the Financial Management Bureau, which serves as the administrative function for DHS. FMB has a collection window to collect funds from the public, and also serves as the central repository for all funds collected by the various collection points within DHS. Deposits of all funds to the bank are made by FMB. The system of record for the Child and Family Services Division is Cerner/Anasazi. This system of record is also used by the Divisions of Aging and Disability, and Behavioral Health. This system was formerly called Anasazi, but its name changed to Cerner, resulting from a vendor acquisition. Various County representatives within DHS refer to this system of record by either name, as such it is being referred to as Cerner/Anasazi within this report.

Collection points are established when a need is identified. Once established, funds handling procedures are implemented and are monitored to ensure that receipts are properly recorded in the system and funds collected is properly safeguarded. Effective monitoring includes the following activities:

- Proper issuance of receipts to clients and document retention by the cash collection point;
- Inspection of payment method for appropriateness and completeness, i.e. checking for counterfeits and validating a check is endorsed accurately;
- Entry of the payment to the system of record, including appropriate segregation of duties in the funds handling process;
- Preparation of a daily reconciliation and submission of the deposit;
- Verification of the deposit posting to the bank;
- Verification of appropriate entry/posting of cash receipts into the general ledger, including verification of appropriate general ledger account and ensuring posting agrees to supporting documentation; and
- Verification that proper documentation is maintained to support the process, in compliance with the document retention policy.

Funds Handling – Child and Family Services

Client payments are either collected in person by CFS, taken over the phone or provided through the mail to FMB. When a client receives services from CFS, the person providing the services enters case notes within the system of record, Cerner/Anasazi, which creates a client account. Payment is requested at the time of services, and collected by the receptionist. The payment is entered into Cerner/Anasazi and the receipt created by Cerner/Anasazi is issued to the client. Receipts issued to clients by CFS are not consecutive, as various divisions used Cerner/Anasazi, and the system issues consecutive numbers to all departments using the system.

Background - continued

Funds Handling – Child and Family Services - continued

Funds collected are logged on the *CFSD Daily Deposit Report*. The funds collected are counted both at the beginning of the day and at the end of the day by two people who sign the *CFSD Daily Deposit Report* confirming the cash count. The funds collected the previous day are deposited with FMB the following morning. FMB then counts the funds and issues a receipt to CFS. The funds are then locked in FMB's drop safe. The combination to that safe is held by the Accounting Manager, and the Reimbursement Manager and two line staff. FMB is responsible for verifying that the deposit is accurate by reconciling the amounts recorded as collected per the *CFSD Daily Deposit Report* to the amounts posted in the system of record and the deposit slip. FMB is also responsible for posting the transaction into PRISM, the County's general ledger.

Funds Handling – Financial Management Bureau

Client payments for any service within DHS can be received at the FMB window, over the phone or through the mail to the FMB window. All funds collected, except checks received through the mail, are issued a pre-numbered receipt. If a receipt is voided for some reason, it is noted on the *FMB Daily Deposit Report*, which is signed by the person who voided the receipt, and initialed by a supervisor. Checks received through the mail are logged onto a spreadsheet entitled the "*check log*". All cash, credit card, and check/money order payments collected by the FMB window, and the deposit bags received from various DHS collection points are logged onto the *FMB Daily Deposit Report*, detailing the receipt number issued, the amount, who the funds were collected from (client or DHS Collection point), and the form of payment (cash, check/money order, credit card, or deposit bag). The collections are locked in a cashier's drawer during the day. The *FMB Daily Deposit Report* and *check logs* are submitted to assigned persons within FMB for posting of the individual client payments received by the FMB window to the respective systems of record.

At the end of the day, the cashier's drawer is locked. The cash is counted by two (2) employees and reconciled to that day's *FMB Daily Deposit Report*. Both employees sign off on the *FMB Daily Deposit Report*, confirming the amount of cash placed in the safe. The cash is then locked in a drop safe. Each Thursday, all cash collected from the previous five business days (Wednesday through Tuesday) are accumulated and deposited in the bank. Details of the deposits are sent to the Treasurer's office at the County. The Treasurer's office is responsible for the monthly bank reconciliation. FMB is responsible for verifying that the deposit is accurate by reconciling the amounts recorded as collected per the respective daily deposit report to the amounts posted in the system of record and to the deposit slip. FMB is also responsible for posting the transaction into PRISM, the County's financial system.

Objectives and Approach

Objectives and Approach

Objectives

The scope of this cycle audit encompassed the process at its current state of the Child and Family Services and Financial Management Bureau collection points within DHS, and included a sample from the population of cash collections for Fiscal Year 2016 from July 1, 2015 to June 30, 2016 from the selected collection points for the purpose of transactional testing. The cycle audit covered the funds handling process up to and including recording revenue in the general ledger within PRISM, and reconciliations of related accounts used to record revenue collections. The primary objectives of this cycle audit included the following:

- Analyze and assess design of existing process and internal controls for adequacy over funds handling; and
- Review compliance with departmental policies and procedures as they relate to funds handling, if any.

Approach

Our audit approach consisted of the following phases:

Understanding and Documentation of the Process

During the first phase we performed the following:

- Conducted entrance conferences with representatives from DHS, including representatives from the Child and Family Services and Financial Management Bureau collection points to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Obtained copies of financial reports and other documentation deemed necessary and appropriate to gain an understanding of the existing control environment;
- Reviewed the County's Funds Handling Policy and procedures related to this cycle audit;
- Conducted interviews with personnel within the collection points to obtain an understanding of the unique aspects of each process in order to perform our testing; and
- Developed flowcharts of the process(es), which are included in this report.

Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The process and control evaluation phase of this engagement consisted of an evaluation of the design and testing of operating effectiveness, based on our understanding of the funds handling process. We performed walkthroughs and detailed testing utilizing sampling and other auditing techniques to meet our audit objectives outlined above. The time period covered by testing was July 1, 2015 through June 30, 2016. Specific procedures performed included:

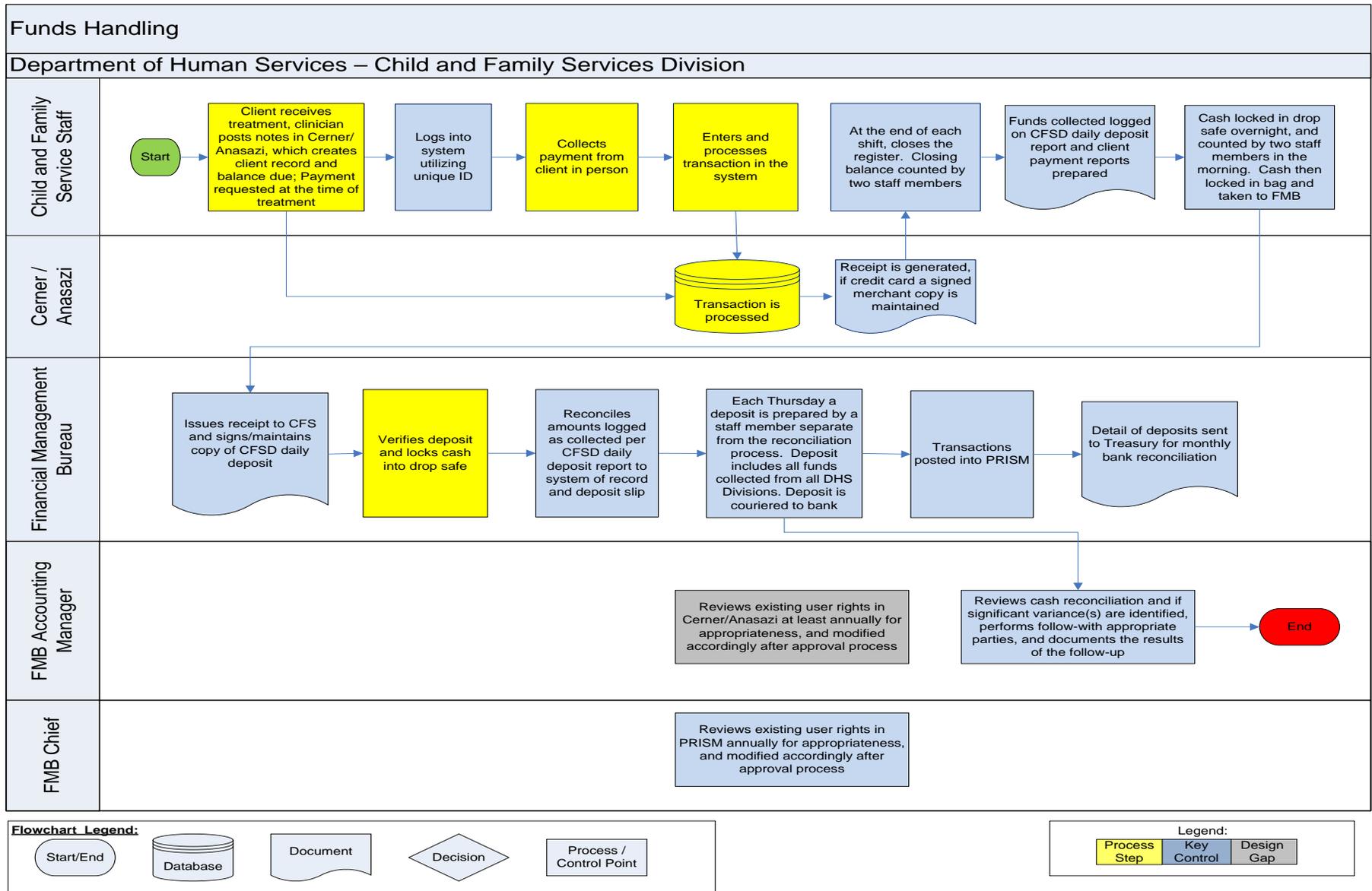
- Performance of testing of funds collected and its agreement to the collections recorded in the system of record;
- Performance of testing of daily collections and its agreement to the bank deposit;
- Assessment of safeguarding of cash (defined as actual cash and checks), including access to the safe(s);
- Review of timely recording in general ledger;
- Review for adequacy of recordkeeping;
- Assessment of segregation of duties related to cash handling, recording and reconciliation;
- Review for compliance with department and best practice procedures;
- Review of existing user access rights to the general ledger PRISM and the system of record Cerner/Anasazi for appropriateness; and
- Review for records of cash overages/shortages and monitoring.

Reporting

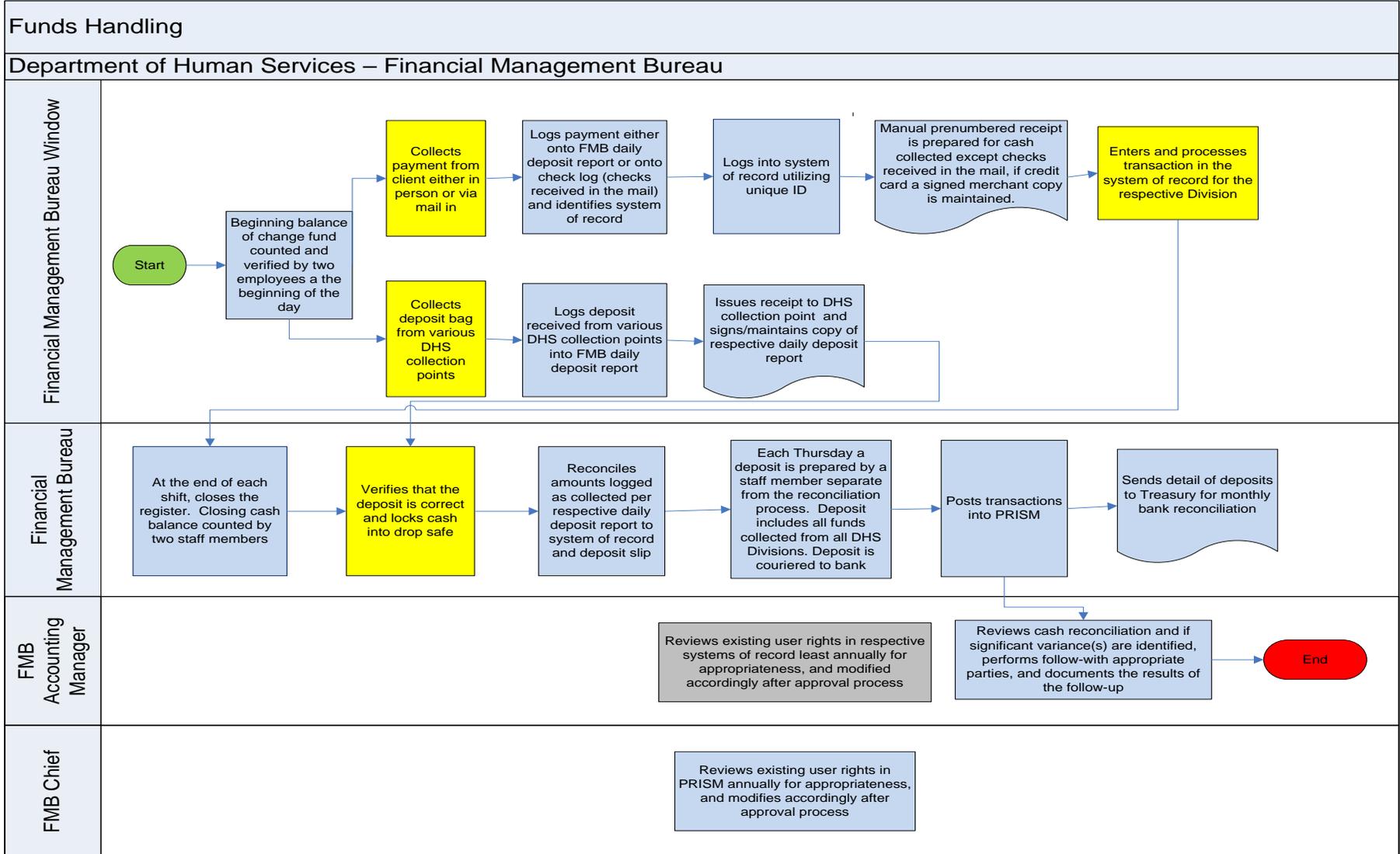
At the conclusion of this audit, we vetted the facts and exceptions noted with DHS and DMF. The draft report was submitted to DMF, and then to DHS after review. An exit meeting was held with DHS and County Management to formally review and discuss the draft report and modify accordingly. Management's corrective action plan with estimated completion dates has been provided and included in the report.

Process Maps

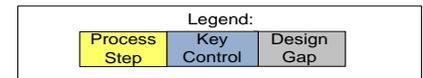
Process Maps



Process Map



Flowchart Legend:





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