



ARLINGTON
VIRGINIA

Internal Audit Report – Funds Handling Cycle Audit

Arlington Economic Development: Cultural Affairs
Division – Facilities Rentals

Report Date: May 31, 2017

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TRANSMITTAL LETTER

May 31, 2017

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Director, Arlington Economic Development

Ms. Maria Meredith
Deputy Director, Department of Management and Finance

Arlington County, Virginia
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Arlington, VA 22201

Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the Funds Handling Cycle Audit of the Arlington Economic Development (“AED”): Cultural Affairs Division – Facilities Rentals. Our report is organized in the following sections:

| | |
|--------------------------------|---|
| Executive Summary | This section includes a background summary of the function, the objectives and approach, and a detailed description of the observations noted during this cycle audit. Identified with each observation is the recommended action(s), 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 pages 19 and 20 of this report, the observations 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.

Respectfully Submitted,



RSM US LLP

EXECUTIVE SUMMARY

Background

Funds handling involves those activities performed to process cash and credit 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, and Arlington Economic Development adheres to this county-wide policy. Recommendations made within this cycle audit will further enhance AED’s procedures.

AED Cultural Affairs Division – Facilities Rentals provides theatre (performance) and rehearsal space to local groups supported by or involved with the County. AED is “*dedicated to the preservation and enhancement of an economically competitive and sustainable community, and the creation of exciting, diverse and amenity-rich places.*” As part of AED, Cultural Affairs’ objectives are focused on supporting a creative environment that encourages collaboration, innovation, and community participation. Cultural Affairs accomplishes these objectives by “providing material support to artists, and arts organizations, in the form of grants, facilities, and theater technology”.

The County utilizes PRISM as their financial system (general ledger).

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

Objective and Scope

The scope of this cycle audit encompassed the process in its current state at the selected collection point, AED Cultural Affairs Division – Facilities Rentals. Overall, there are five (5) collection points within AED. Four (4) of those collection points reside within AED Cultural Affairs and provide services to County residents. The fifth collection point is the administrative function for AED, which receives administrative funds four times a year by mail.

This cycle audit included a sample from the population of cash and credit collections from the selected collection point for Calendar Year 2016, January 1, 2016 to December 31, 2016, for the purpose of transactional testing. 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.

Fieldwork was performed February 2017 through May 2017

Number of Observations by Risk Rating

(See Appendix A for definitions)

| | High | Moderate | Low |
|---|------|----------|-----|
| Funds Handling Cycle Audit – AED Cultural Affairs Division – Facilities Rentals | 3 | 2 | 6 |

We would like to thank all Arlington County team members who assisted us throughout this review.

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|--|--|
| High | 1. Segregation of Duties | | |
| | <p>The County's Funds Handling Policy under Segregation of Duties states <i>"The funds collection points must maintain clear separation of duties. An individual should not have responsibility for more than one of the following cash handling components; collecting, depositing, disbursement, and reconciling"</i>.</p> <p><i>"Ensure there is a system of checks in balances in place so that no one employee is allowed to complete related steps in a process from beginning to end"</i>.</p> <p><i>"If staffing is not sufficient to allow separation of duties, there should be regular over-sight by another employee"</i>.</p> <p>Currently, AED Cultural Affairs does not maintain clear separation of duties as the AED Cultural Affairs Facilities Manager performs the collecting, recording, depositing and reconciling as it relates to funds handling, with no <i>'regular over-sight by another employee'</i>.</p> <p>Although, the AED Accounting Manager performs a reconciliation between PRISM (general ledger) and the Cash Receipt Input Forms (CRIFs) which are memos stating funds collected, including deposit supporting documentation received from the AED Cultural Affairs Facilities Manager, this reconciliation is not complete. <i>See Observation #2</i></p> <p>Without proper segregation of duties surrounding funds handling, there is an increased likelihood that errors, misappropriation of funds, or other types of irregularities may occur without being detected and corrected in a timely manner.</p> | <p>AED Cultural Affairs should introduce an additional role to allow for appropriate segregation of duties when collecting, depositing, disbursing, and reconciling Facility Rental funds.</p> <p>If additional staffing is not possible due to budget limitations, the following recommendation will provide the appropriate level of over-sight as required by County policy.</p> <p>Complete, timely and appropriate reconciliations will reduce AED Cultural Affairs' segregation of duties risk exposure. <i>See Observation #2</i></p> | <p>Response: AED concurs with the recommendation. Staffing is not currently sufficient, nor is increased staffing an efficient solution, to properly segregate all duties as it relates to funds handling. The process and procedure for reconciliations should be strengthened and formalized in order to mitigate risks – particularly concerning irregularities or accounting errors. For FY17, we have increased the frequency of reconciliations and intend to schedule regular monthly reconciliations moving forward in FY18.</p> <p>Responsible Party: AED Operations Manager; Accounting Manager; CAD Facilities Manager</p> <p>Estimated Completion Date: July 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|--|--|
| High | 2. Reconciliations | | |
| | <p>The County Funds Handling Policy under Balancing and Reconciliation states “<i>All funds received must be reconciled to the amount recorded in PRISM monthly, before the general fund closes for the month</i>”.</p> <p>Also, any funds handling process requires a series of reconciliations to facilitate prompt detection of misappropriation and errors.</p> <p>We noted the following during our reconciliation:</p> <ul style="list-style-type: none"> Based on a review of a report generated on March 24, 2017 by AED Operations Resource Manager, from PRISM (general ledger) of all revenue journal entries for AED Cultural Affairs Facilities Rentals for CY 2016, revenue recorded in the general ledger amounted to \$223,319. This general ledger report included: <ul style="list-style-type: none"> \$15,112 in credit card transactions; and \$208,207 in check / cash transactions. Based on a review of a ‘Cash Journal’ report generated on April, 27, 2017 by a Business System Analyst, from RecTrac (receipt and scheduling tool), of all funds collected for AED Cultural Affairs Facilities Rentals during CY 2016, funds collected and recorded amounted to \$205,271. These transactions included: <ul style="list-style-type: none"> \$205,271 in check / cash transactions | <p>We recommend the following:</p> <ul style="list-style-type: none"> The County’s Funds Handling Policy regarding reconciliations be adhered to without exception. The reconciliation should include the following, at a minimum: 1) CRIF, including supporting documentation; 2) PRISM (general ledger); and 3) RecTrac (system of record). The reconciliation should include sign off and date by the preparer (when prepared) and the reviewer (when reviewed). All reservations, no matter the form of payment, should be recorded in the RecTrac system of record including the corresponding payment information. This allows for proper monitoring of the facility rental schedule, revenue, and customer information. <i>See Observation #3</i> This review should also include validating that the correct amount was charged per current pricing structure and applicable agreements. A re-emphasis of the County’s Funds Handling Policy should be provided to all staff involved with the funds handling process in AED. The re-emphasis should include circulating the results of this cycle audit to all staff involved with the funds handling process in AED. | <p>Response: The observation period for this Audit included a notable transition period for the function of financial control in AED. Since that period, the department has made significant progress toward adherence to the County Funds Handling Policy, and generally toward improvements in process management related to funds handling.</p> <p>AED concurs with the recommendation, understanding that improvements are already underway. The department will investigate how to provide additional functionality or access within the RecTrac system, working with the Parks and Recreation Department who administer RecTrac, in an attempt to ensure all deposit transactions (in-person, over-the phone, physical check, or cash) are registered in the system of record and that a monthly report (cash journal report) is generated in order to provide a third component to assist in matching deposit amounts for reconciliation purposes. A 3-way match, to include: 1) the scanned check, credit card register, and/or Wells-Fargo deposit receipt; 2) the RecTrac deposit receipt; and 3) the general ledger account inquiry for the account referenced in the CRIF</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|---|---|
| High | 2. Reconciliations - continued | | |
| | <ul style="list-style-type: none"> PRISM (general ledger) included revenue amounting to \$3,425 more than the revenue recorded in RecTrac (front-end system of record). <ul style="list-style-type: none"> \$2,935 more check / cash transactions were recorded on the general ledger than RecTrac; One RecTrac entry amounting to \$490 was not able to be tied to a corresponding general ledger entry. Credit card transactions are not recorded in a front-end system of record, <i>see Observation #3</i>, therefore we excluded the identified credit card transaction within the general ledger amounting to \$15,112 from the reconciliation. Periodically, the AED Accounting Manager performs a reconciliation between PRISM (general ledger) and the CRIFs, including deposit supporting documentation received from the AED Cultural Affairs Facilities Manager. Any discrepancies are resolved between the AED Accounting Manager, Treasurer's Office, and the AED Cultural Affairs Facilities Manager before adjusting entries are made (if necessary). This reconciliation performed by AED Accounting Manager is not thorough enough to identify errors and missing payments / revenue. The reconciliation does not include RecTrac (system of record), which includes reservations booked or the excel spreadsheet maintained for credit card payments. <i>See Observation #3</i> The reconciliation is not performed on a consistent periodic basis (at least monthly) as stipulated in the County policy. Currently, the reconciliation is performed at least quarterly and usually monthly, but there is no formal deadline or tracking of the completion. <p>Proper and timely reconciliations are essential to detect errors or irregularities and deter theft or loss of County funds.</p> | <ul style="list-style-type: none"> AED Cultural Affairs should perform a review of the credit card transactions collected for surcharges during our testing period to determine if all funds were appropriately reflected in the general ledger. | <p>Response - continued: will be the goal to provide a 100% reconciliation and to identify any dollar amount or other accounting inconsistencies. The reconciliation will happen on a monthly basis, to coincide with the accounting period close for each month.</p> <p>In reviewing transactions following the audit, AED staff was able to provide backup for reconciling all 11 credit card transactions by using account statements for the point of sale and supplemental backup requested from the Treasurer's Office and Merchant Services provider (Elavon). All transactions have also been matched to CRIF deposits and GL accounting entries.</p> <p>Responsible Party: AED Operations Manager; Accounting Manager; CAD Facilities Manager</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|---|--|
| High | 3. Credit Card Payments and Use of RecTrac | | |
| | <p>RecTrac (system of record) is the reservation scheduling and receipting tool that is utilized by AED Cultural Affairs to track and monitor facility reservations and provide receipts after payments are received. When a customer / entity reserves a space they make a payment, are provided a receipt generated from RecTrac, and are scheduled.</p> <p>We noted the following during our walkthroughs:</p> <ul style="list-style-type: none"> RecTrac is not utilized for reservations paid for by credit card, including receipt generation, as receipts are provided by the credit card kiosk. During our testing period, \$15,112 in credit card transactions recorded in the general ledger were not recorded in RecTrac. To validate completeness, a report of all credit card transactions was obtained from the County's bank and reconciled to the general ledger. All credit card transactions were appropriately recorded in the general ledger. The AED Cultural Affairs Facilities Manager tracks anticipated surcharges from performances manually on a spreadsheet, which includes five (5) different locations. Surcharges amount to roughly 10% of ticket revenue generated for performance at rented facilities and are not tracked within RecTrac. There is no controls in place to track accounts receivable for performance surcharges. A reconciliation between the CRIF, RecTrac (system of record), and PRISM (general ledger) is not performed. See <i>Observation #2</i> <p>The current process for credit cards payments and performance surcharges provides inadequate reservation monitoring and RecTrac utilization, which may result in scheduling errors, receipting issues, and loss of revenue.</p> | <p>All reservations and performance surcharges, no matter the form of payment, should be recorded in the RecTrac (system of record), including the corresponding payment information. This allows for proper monitoring of the facility rental schedule, revenue, and customer information.</p> | <p>Response: AED concurs with the recommendation. As stated in the response for Observation #2, staff will work with DPR to incorporate the functionality necessary in RecTrac to record all CAD facility reservations. We believe there is a credit card reader option that allows a direct link and receipt function with RecTrac, which we will pursue with DMF/Treasurer.</p> <p>Responsible Party: AED Operations Manager; Accounting Manager; CAD Facilities Manager</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|---|--|
| Moderate | 4. Department-Level Funds Procedures and Back-up | | |
| | <p><u>Procedures</u> The County's Funds Handling Policy under Overview <i>states "All departments where funds are handled in the County should have a written funds handling policy specific to their department, regardless of the amount of funds handled. The specific language in this policy should be incorporated into the department's funds handling policy, which should reflect the operating needs of the department and may be more restrictive, but not less restrictive"</i>.</p> <p>The AED Cultural Affairs Facilities Manager performs all daily funds handling procedures for Cultural Affairs. This includes receiving payments, generating a receipt in RecTrac, generating a CRIF in Excel, maintaining separate excel spreadsheet of performance surcharges, and emailing the CRIF with deposit receipt to the Treasurer's Office and AED Finance.</p> <p>Currently, there is not a department-level policy or procedure document in place for the funds handling process at AED. The AED Cultural Affairs Facilities Manager has created the funds handling process to meet the specific needs of the area, however, no other individual has been trained or has the capability to utilize RecTrac.</p> <p>The absence of clear written procedures increases the risk of the funds handling process being executed inconsistently or inaccurately at the various cash collection locations. Centralized, standardized, and documented procedures provide vital information to employees in the event of absence and employee turnover, and to assist with succession/back up planning or other occurrences. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent process functioning, monitoring and reporting. This practice also provides management with a benchmark to monitor against to ensure that staff performs processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable.</p> | <p><u>Procedures</u> We recommend that department-level funds handling procedures be documented and distributed to each cash collection location for reference. Procedures should be reviewed annually and updated as needed at the time of review. The procedures should include step-by-step instructions on how to utilize the RecTrac system of record. The procedures should be accessible to all individuals with 'back-up' responsibilities.</p> <p>If the creation of an independent funds handling policy is deemed unnecessary the Arlington County Funds Handling policy should be amended to state, <i>"DMF will work with each department that operates a collection point to determine the need for a department-level funds handling policy"</i>.</p> | <p>Response: AED concurs with the recommendation. The department will aim to document all existing procedures and any improvements/modifications necessary as part of action-items related to other audit observations. Back-up/continuity of operations will be considered as part of these procedures and any system access will be granted or shared as appropriate.</p> <p>Responsible Party: AED Operations Manager</p> <p>Estimated Completion Date: October 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|---|---------------------------------|
| Moderate | 4. Department-Level Funds Procedures and Back-up - continued | | |
| | <p><u>Back-up</u> As noted above, the AED Culture Affairs Facilities Manager performs all daily funds handling procedures for Cultural Affairs.</p> <p>The 'back-up' to the AED Cultural Affairs Facilities Manager does not have sufficient tools and knowledge to complete all applicable funds handling processes. The individual identified as the back-up to the AED Cultural Affairs Facilities Manager, in the case that the back-up is out of the office, does not have system access to RecTrac. The back-up is able to deposit funds using the check scanner or credit card machine as well as create the CRIF, however the RecTrac portion of the process is not able to be completed until the AED Cultural Affairs Facilities Manager is able to return.</p> <p>If the process becomes disjointed, as in the situation noted above, required steps may not be completed appropriately or accurately for all transactions.</p> | <p><u>Back-up</u> The individual delegated to perform back-up functions for the AED Cultural Affairs Facilities Manager should be provided system access to RecTrac. The back-up should be trained to complete the RecTrac portion of the funds handling process in the event that the AED Cultural Facilities Manager is unable to perform her duties. Department-level procedures will be vital to assist the back-up in performing the required duties of funds handling.</p> | |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|--|---|
| Moderate | 5. Frequency of Deposits | | |
| | <p>The County's Funds Handling Policy under Physical Safeguards and Access to Funds states <i>"Funds received for deposit must reach the Treasurer's Office or be directly-deposited to the designated bank as soon as feasible, but no later than 5 working days after initial receipt. There may be times when deposits cannot be made 5 working days after receipt, but these should be rare. In those instances, it should be noted why the deposit could not be made within 5 working days"</i>.</p> <p>We noted during our testing of nineteen (19) transactions of three (3) selected payors, six (6) transactions in which the funds were not deposited within five (5) business days of initial receipt. Delays ranged from 7 to 14 days over the deposit timeline of five (5) business days from initial receipt, and receipts of \$160 - \$7,000.</p> <p>Delays in the frequency of deposits and the dollar value of those funds undeposited increase the risk of misappropriation of funds can result in loss of revenue and inaccurate records.</p> | <p>We recommend the following:</p> <ul style="list-style-type: none"> • The County's Funds Handling Policy regarding timeliness of deposits be adhered to without exception. • A re-emphasis of the County's Funds Handling Policy be provided to all staff involved with the funds handling process in AED. • The re-emphasis should include circulating the results of this cycle audit to all staff involved with the funds handling process in AED. | <p>Response: AED concurs with the recommendation.</p> <p>Responsible Party: All AED staff with deposit responsibilities</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|---|---|
| Low | <p>6. Supporting Documentation</p> | | |
| | <p>The County's Funds Handling Policy under Record Retention states "<i>All cash receipts and related documents must be maintained in accordance with the Library of Virginia's Records Retention and Disposition Schedules. Account reports, deposit slips, credit card receipts, copies of manual cash receipts, etc. should be kept for three years after the end of the fiscal year</i>".</p> <p>We noted the following during our testing of nineteen (19) transactions of three (3) selected payors:</p> <ul style="list-style-type: none"> • One (1) did not have an associated receipt; and • Two (2) did not have the associated deposit slip. <p>Without proper maintenance of supporting documentation, it would be difficult to confirm that payment was made or that fraudulent activity was not taking place. Also, it is a violation of both the County's Fund Handling Policy and the Library of Virginia's Records Retention and Disposition Schedules to not maintain these documents for three years.</p> | <p>We recommend the following:</p> <ul style="list-style-type: none"> • The County's Funds Handling Policy regarding records retention be adhered to without exception. • A re-emphasis of the County's Funds Handling Policy be provided to all staff involved with the funds handling process in AED. • The re-emphasis should include circulating the results of this cycle audit to all staff involved with the funds handling process in AED. | <p>Response: AED concurs with the recommendation.</p> <p>Responsible Party: AED Operations Manager; Accounting Manager; all AED staff with deposit responsibilities</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|--|---|
| Low | 7. Check Endorsement | | |
| | <p>The County's Funds Handling Policy under Funds Received In Person states <i>"All checks must be endorsed immediately with a restrictive endorsement stamp indicating "For Deposit Only, Treasurer Arlington County", and the receiving department's name"</i>.</p> <p>Checks received as payment are not stamped by the Facilities Rentals collection point. They are scanned and deposited, then retained for subsequent shredding.</p> <p>Failure to properly endorse checks increases the ability of a check being misappropriated, resulting in loss of revenue. Additionally it provides evidence of receipt.</p> | <p>We recommend that AED Cultural Affairs obtain the appropriate stamp for use when the method of collection is check, to adhere to the County policy without exception.</p> | <p>Response: AED concurs with the recommendations. The department will develop procedures to ensure compliance as far as endorsement.</p> <p>Responsible Party: AED Operations Manager; all AED staff with deposit responsibilities</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|--|--|--|
| Low | 8. Safeguarding of Assets | | |
| | <p>The County's Funds Handling Policy under Physical Safeguards and Access to Funds states <i>"Funds totaling more than \$250 in a given day should be kept in locked drawers or register must be moved to the safe. All funds kept overnight must be moved into a drop safe and locked"</i>.</p> <p>The Facilities Rentals collection point utilizes a file cabinet, as opposed to a drop safe, to safeguard funds. The key is maintained by the AED Cultural Affairs Facilities Manager.</p> <p>The Facilities Rentals collection point primarily receives payment by check and credit card, however, it has the capability to receive cash. Per Facility Manager, who is the sole individual responsible for the collections process, no cash has been collected at the location for the past four (4) years.</p> <p>Per inquiry with the AED Cultural Affairs Facilities Manager the form of payment is primarily by check or credit card; receipt of actual cash is minimal.</p> <p>Failure to properly safeguard funds increases the risk and opportunity for misappropriation of funds and loss of revenue.</p> | <p>AED Cultural Affairs should work with DMF to determine if a safe is required at this site. If not, exceptions to the County's Funds Handling Policy should be noted by AED in writing, including compensating controls AED has in place to reduce the risk, and submitted to DMF for review and approval (documented) by DMF.</p> | <p>Response: AED concurs with the recommendation. The department will work with DMF to determine the suitability and requirements for a drop-safe at all AED deposit locations.</p> <p>Responsible Party: AED Operations Manager</p> <p>Estimated Completion Date: October 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|---|--|
| Low | <p>9. Documentation of Funds Received by Mail</p> | | |
| | <p>The County's Funds Handling policy under Funds Received Through The Mail states <i>"All payments received by mail should be recorded in a transmittal log which should accompany the deposit. The transmittal log should include the date, amount of funds received by type (cash, checks, and debit/credit) for each purpose. This log should be audited by the supervisor at least once a year to ensure it is getting completed correctly"</i>.</p> <p><i>"Documentation of funds received through the mail should include the date, amount of cash received and signatures of the employees counting and verifying the cash received. A copy of the system receipt generated upon entering the payment should be maintained, and, in the case of checks received, a copy of the check should be maintained"</i>.</p> <p>We noted the following, per inquiry with the AED Cultural Affairs Facilities Manager, in regards to funds collected:</p> <ul style="list-style-type: none"> • Funds are collected primarily over the phone or by mail, and rarely collected in-person; • The collection method (in-person, mail, or phone) is not tracked in the system of record (RecTrac) or any additional tracking tools; • Transmittal logs or other form of documentation are not utilized for funds collected by mail; • Sign-offs on funds received by mail (employee counting and employee verifying cash received) are not performed for funds collected by mail; and • Annual audits are not performed for funds collected by mail. <p>Without proper supporting documentation for funds received by mail, funds could be lost or misappropriated without detection.</p> | <p>We recommend the following:</p> <ul style="list-style-type: none"> • The County's Funds Handling Policy regarding funds received by mail be adhered to without exception. • A re-emphasis of the County's Funds Handling Policy be provided to all of those involved with the funds handling process in AED. • The re-emphasis should include circulating the results of this cycle audit to all those involved with the funds handling process in AED. • The annual review of the transmittal log should be performed by the AED Accounting Manager or AED Operations Resource Manager to validate completeness and accuracy. • If this process is deemed unreasonable by AED, exceptions to the County's Funds Handling Policy should be noted by AED in writing, including compensating controls AED has in place to reduce the risk, and submitted to DMF for review and approval (documented) by DMF. • When posting the transactional data in the system of record (RecTrac), the physical collection method should be included (ex. In-person, by mail, or over the phone). If possible, a drop down field should be created for the 'collection method' field in the system of record. | <p>Response: AED concurs with the recommendation.</p> <p>Responsible Party: AED Operations Manager</p> <p>Estimated Completion Date: October 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|--|---|
| Low | 10. Retention of CRIFs and Supporting Documentation | | |
| | <p>The CRIF is the form utilized by the Facilities Rentals collection point to document funds collected for a given period. The CRIF is distributed by the AED Cultural Affairs Facilities Manager via email along with the deposit slip (notification) to the Treasurer's Office as well as the AED Finance e-mail inbox.</p> <p>The CRIF and deposit slip (notification) is maintained on the AED Cultural Affairs Facilities Manager's local drive, which runs the risk of not being retained or lost if the AED Cultural Affairs Facilities Manager's local drive becomes compromised.</p> <p>Inadequate document retention could lead to lost or misappropriated of funds without detection, resulting in loss of revenue.</p> | <p>We recommend that the AED Cultural Affairs Facilities Manager maintain each CRIF and deposit slip (notification) on a shared drive instead of on their local drive.</p> | <p>Response: AED concurs with the recommendation. The department will work its business systems analyst to determine the best technology solution to develop a shared file system for deposits.</p> <p>Responsible Party: AED Operations Manager, all staff with deposit responsibilities, AED Tech Coordinator</p> <p>Estimated Completion Date: September 30, 2017</p> |

EXECUTIVE SUMMARY (CONTINUED)

| <u>Risk Rating</u> | <u>Observation</u> | <u>Recommendation</u> | <u>Management's Action Plan</u> |
|--------------------|---|---|--|
| Low | 11. Adjusting Entries for AED Facility Rentals | | |
| | <p>The AED Accounting Manager performs a periodic reconciliation of all CRIFs received from the AED Cultural Affairs Facilities Manager to the general ledger (PRISM).</p> <p>If an issue is identified as part of the reconciliation, it is researched, and adjusting entries are made if necessary. When the AED Accounting Manager makes a manual adjusting entry there is no review and approval by an individual within AED Finance.</p> <p>Without appropriate review and approval by an individual with knowledge of the process, erroneous manual adjustments may cause in accurate accounting of revenue and other accounts.</p> | <p>We recommend that the AED Operations Resource Manager review and approve all manual adjusting entries for AED. Signature or email approval should be retained as evidence of review.</p> | <p>Response: AED concurs with the recommendation and will request workflow modifications in PRISM (accounting system) to allow for this approval path. Alternatively, the Operations Resources Manager will approve, via email, all manual adjustment (Journal Entry) entries for the department. The email indicating the entry has been reviewed and approved will be attached in PRISM.</p> <p>Responsible Party: AED Operations Manager, AED Accounting Manager</p> <p>Estimated Completion Date: July 30, 2017</p> |

IMPROVEMENT OPPORTUNITY

| <u>Improvement Opportunity</u> | <u>Recommendation</u> |
|--|---|
| Reservee Information not Recorded | |
| <p>RecTrac is the reservation scheduling and receipting tool that is utilized by AED Cultural Affairs to track and monitor facility reservations as well as provide receipts after payments are made. When a customer / entity reserves a space they make a payment, are provided a receipt generated from RecTrac, and are scheduled.</p> <p>Based on walkthroughs, all receipts are emailed to reservee's after the transaction takes place. Additionally, the majority of all reservations are made by returning reservee's. There is no record field in RecTrac for the reservee's email address.</p> <p>Reservee email addresses should be included in RecTrac. This will allow anyone new to the position or the Facility Manager's 'back-up' effective access to pertinent returning reservee information. Additionally, not including reservee email addresses in the system of record may lead to erroneous distribution of receipts for future transactions.</p> | <p>RecTrac should be updated to include a record field for Reservee email address. This field should be utilized when processing a reservation / transaction in RecTrac.</p> |
| Updates to the County's Funds Handling Policy | |
| <p>We noted the following areas for updates to the County's Funds Handling Policy:</p> <ul style="list-style-type: none"> • Reconciliations – See <i>Observation #2</i> • Check retainage – See <i>Observation #7</i> | <p>The County's Funds Handling Policy should be updated as follows:</p> <ul style="list-style-type: none"> • Include specific procedures that reconciliations must be between the following, at a minimum: 1) CRIF, including supporting documentation; 2) PRISM (general ledger); and 3) respective system of record. The reconciliation should include sign off and date by the preparer (when prepared) and the reviewer (when reviewed). • Include specific procedures for retaining each individual check received for 30 days from the date of deposit before disposal. |

BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

Funds handling involves those activities performed to process cash and credit 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. 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 have read and understand the County's Funds Handling Policy. AED adheres to the County-wide Funds Handling Policy and does not have department specific supplemental policies.

There are five (5) collection points within AED. Four (4) collection points reside within the Cultural Affairs Division. The fifth collection point is the administrative function for AED, which receives administrative funds an estimated four times a year by mail. The system of record for the Cultural Affairs - Facilities Rentals division is RecTrac and PRISM. RecTrac is the system utilized to record all facility reservations (scheduling tool) and generate receipts for payment/transactions. PRISM is the County accounting system of record, with respect to our review, is the General Ledger for AED Cultural Affairs transactions.

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

- Proper issuance of receipts to customer/entities 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 in 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 – Cultural Affairs Division – Facilities Rentals

AED Cultural Affairs Division – Facilities Rentals provides theatre (performance) and rehearsal space to local groups supported by or involved with the County. Reservations are not commonly made by new customers, since many of the facilities are reserved for County supported programs. Payments are either collected in person by the Facilities Manager, taken over the phone or provided through the mail. Although AED Cultural Affairs has the ability to accept payment in person it is extremely rare and is only utilized as a last resort. When a group or individual requests to rent a space, the Facilities Manager enters the reservation within the system of record, RecTrac, under the payees name (unless paid for by credit card). There are multiple programs supported by the County that are not required to pay for facility reservations. Many of the facility reservations are made by supported arts groups such as dance or theatre companies. These groups do not make payment in advance, rather they pay a 10% surcharge from any revenue they collect hosting classes or other tuition. Additionally, government agencies that request a facility rental provide payment after the reservation has been fulfilled. Any groups or individuals that do not fall under those previously listed are required to pay in full in advance.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Funds Handling – Cultural Affairs Division – Facilities Rentals (continued)

The payment is entered into RecTrac and the receipt created by RecTrac is issued via email to the payee. Receipts issued to clients by Facilities Rentals are not numbered consecutively, as various divisions use RecTrac, and the system issues numbers to each receipt produced regardless of department. Funds collected are logged on a *Cash Receipt Input Form (CRIF)* in Excel format.

The funds are collected and checks are to be immediately scanned and electronically deposited into the respective Wells Fargo account. It is rare for payment to be made with cash and there were no occurrences during our testing period. After depositing, all checks are held in the Facilities Manager's office in a locked file cabinet and then shredded after thirty (30) days. Any credit payment is processed through the credit card machine, approved by the County, held on-site at AED Facility Rentals location. At the end of each day in which funds were collected, the CRIF and deposit slip (or electronic notification) are distributed via email to both the AED Accounting Manager as well as the Management Analyst at the Treasurer's Office. The individual at the Treasurer's Office is responsible for logging an entry in the General Ledger account to reflect the deposit amount on the CRIF. Periodically, the AED Accounting Manager performs a reconciliation between the GL (PRISM) and all transaction CRIF and deposit supporting documentation received. Any discrepancies are triaged between the AED Accounting Manager, Treasurer's Office, and Facility Manager before adjusting entries are made if necessary.

AED Cultural - Facilities Rentals – Transactional Overview

Utilizing data obtained from RecTrac, Reservation and Transaction system of record for AED Cultural Affairs Facilities Rentals, there were 2824 reservations (many for re-occurring times/locations) placed during Calendar Year 2016. RecTrac Cash Journal recorded \$205,272 in reservation fees over the same time period. 40 different individuals/groups made reservations for an average of 71 instances throughout the year. Reservations were made for ten different spaces including dances studios, rehearsal studios, and conference rooms. Included in a separate tracking tool which is utilized for specific theatre reservations, \$38,062 in surcharge fees based on quantity/price of ticket sales, were collected from 48 performances.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

This scope of this cycle audit encompassed the process at its current state of Cultural Affairs – Facilities Rentals collection point within AED, and a sample from the population of cash and credit collections from this collection point for Calendar Year 2016, January 1, 2016 to December 31, 2016, for the purpose of transactional testing. 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.

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 AED 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 point 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 January 1, 2016 through December 31, 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 funds;
- Review of timely recording in general ledger;

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Approach (continued)

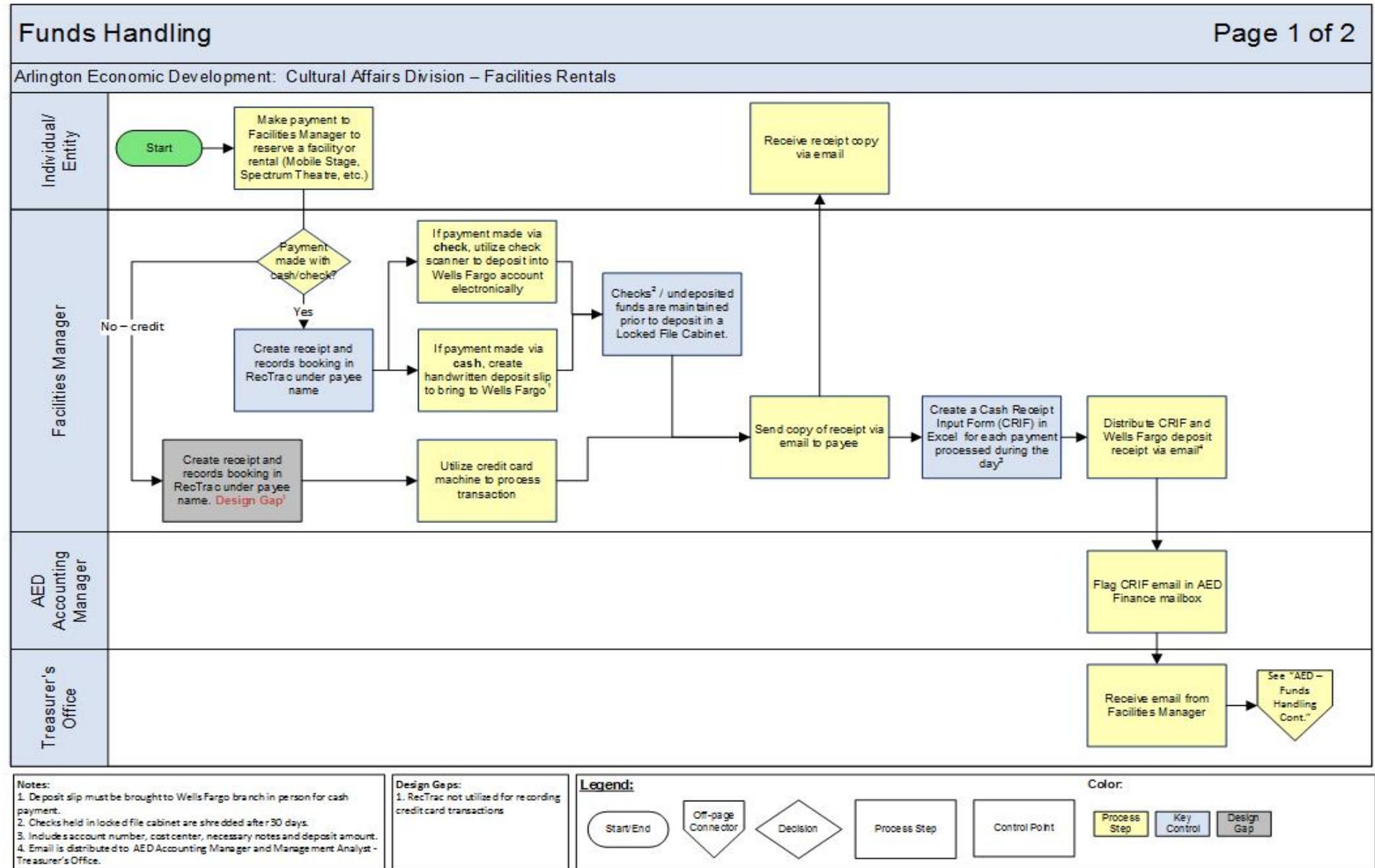
Evaluation of the Process and Controls Design and Testing of Operating Effectiveness (continued)

- Review for adequacy of recordkeeping;
- Assessment of segregation of duties related to funds 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 RecTrac for appropriateness; and
- Review for records of cash overages/shortages and monitoring.

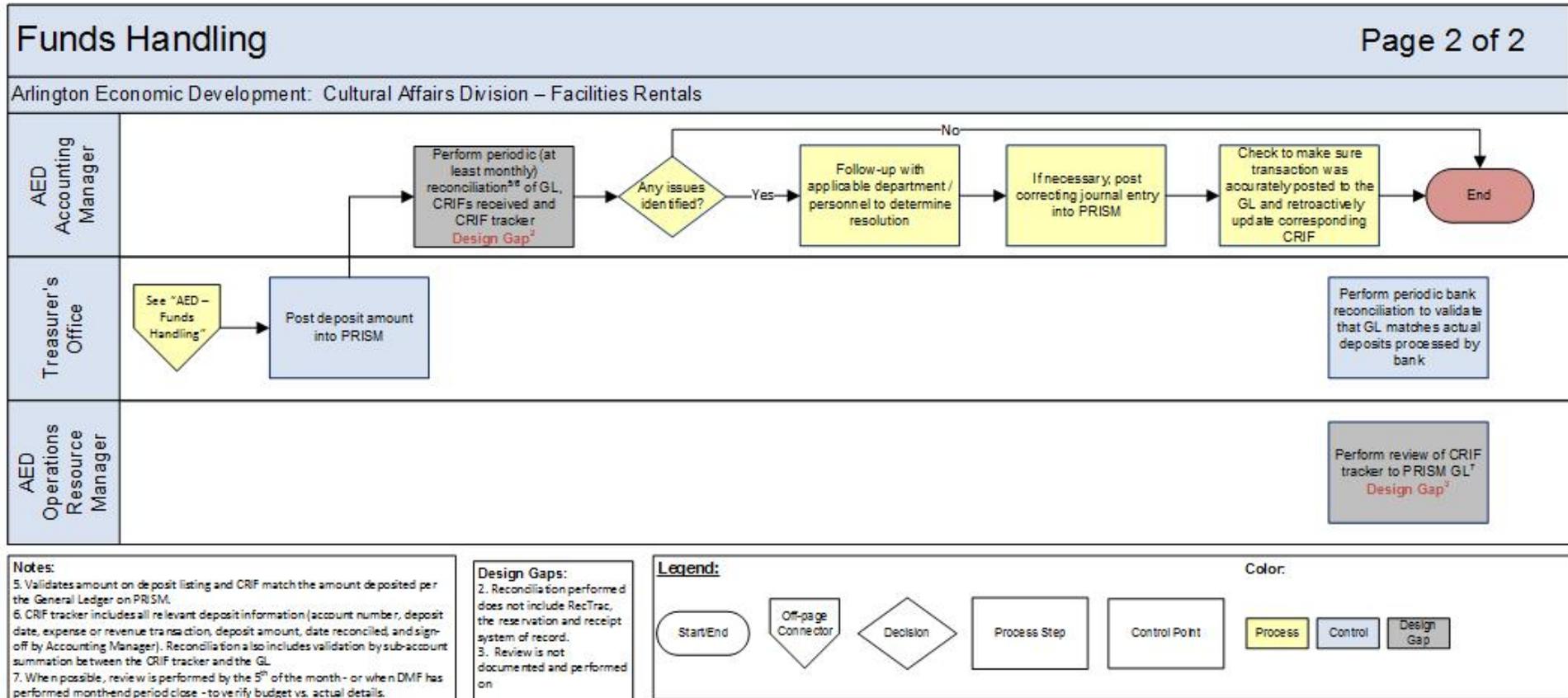
Reporting

At the conclusion of this audit, we vetted the facts and exceptions noted with AED. The draft report was submitted to AED and DMF for review. An exit meeting was held with AED and DMF 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 (CONTINUED)



APPENDIX A – RISK RATING DEFINITIONS

| Observation Risk Rating Definitions | |
|-------------------------------------|--|
| Rating | Explanation |
| Low | Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure. |
| Moderate | Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term. |
| High | Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately. |



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