



Greg Fischer
Mayor

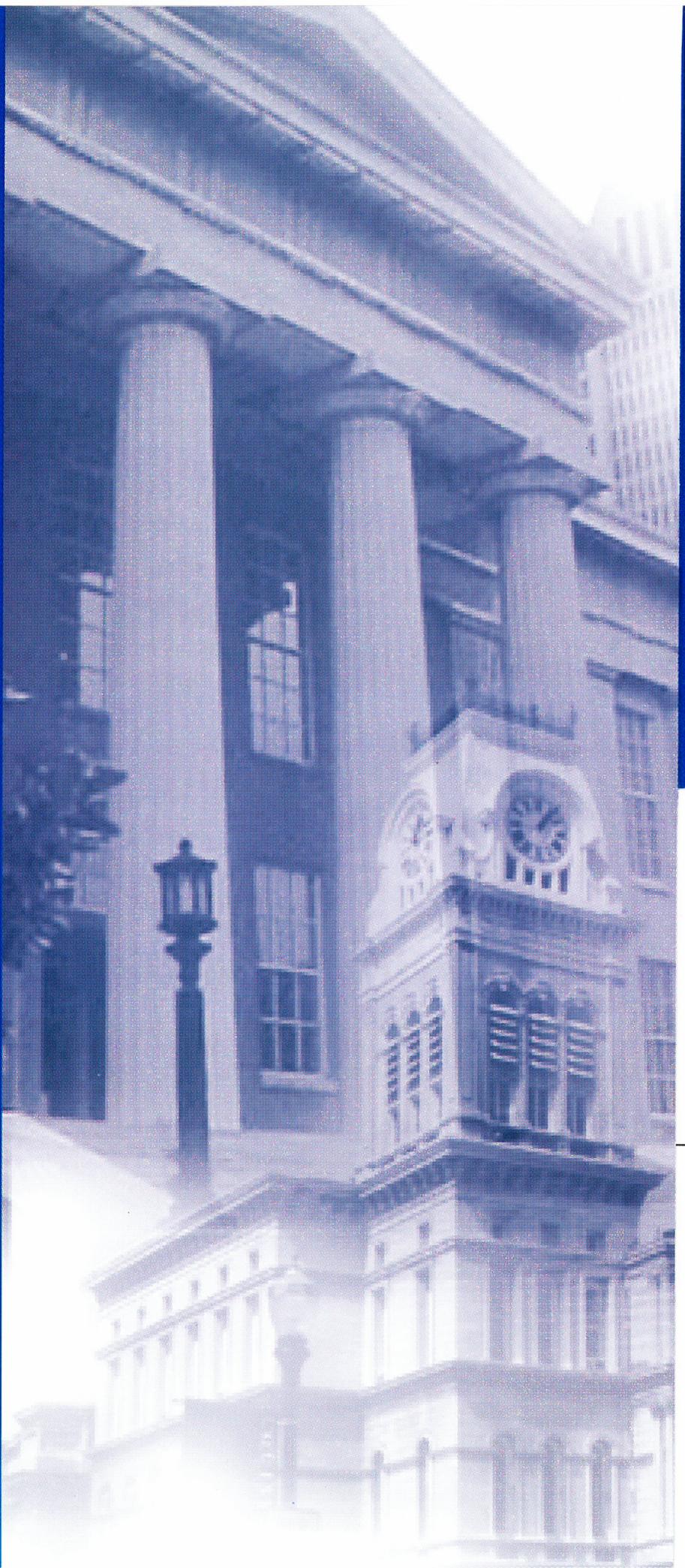
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.

Office of Internal Audit

Public Health and Wellness

MORE Center-Cash Management
Review



Audit Report

Public Health and Wellness Methadone Opiate Rehabilitation Education Center

Cash Management Review

September 2013



Office of Internal Audit

Public Health and Wellness

MORE Center-Cash Management
Review

Table of Contents

Executive Summary 2

Transmittal Letter 3

 Introduction..... 3

 Scope..... 4

 Opinion 4

 Corrective Action Plan..... 5

 Internal Control Rating 6

 Background..... 7

 Summary of Audit Results..... 7

Observations and Recommendations 9

 #1 Monitoring and Reconciliation 10

 #2 General Observations..... 12

Executive Summary

PROJECT TITLE

Public Health and Wellness-Methadone Opiate Rehabilitation Education Center Cash Management Review

OBJECTIVE AND SCOPE

The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus was to ensure that procedures are in place regarding the operational and fiscal administration of revenue and related activity. This was a scheduled audit.

This was a compliance review based on revenue and related activity during fiscal year 2012 (July 2011-June 2012). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

Needs Improvement

RESULTS

Opportunities exist for improving the internal control structure for the administration of the Public Health and Wellness Methadone Opiate Rehabilitation Education Center cash management activity. Examples of the issues include the following.

- There were instances where the total amount of funds on hand did not agree to the total amount collected on the revenue and activity report, resulting in an overage or shortage.
- When cash register overages / shortages are identified, there is no investigation as to what caused the discrepancy. If overages / shortages are not documented and properly investigated, there is a risk that inappropriate transactions could go undetected.
- There were instances where the daily reconciliation form was not signed by the supervisor or designee.
- There is not adequate segregation of duties. One employee is responsible for posting fees, accepting payments, preparing activity reports and preparing the deposit. This issue, along with a weak monitoring system, increase risks associated with revenue activity.
- The key to the cash drawer is not safeguarded and is accessible to any employee at all times for convenience. This increases the risk for unauthorized access to the funds.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

September 24, 2013

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Public Health and Wellness-MORE Center – Cash Management

Introduction

An audit of the Public Health and Wellness Methadone Opiate Rehabilitation Education (MORE) Center's cash management activity was performed. The objective was assessing compliance with operating policies and procedures for revenue collections at the clinic. The primary focus was the operational and fiscal administration of the activity. The focus was revenue collected during fiscal year 2012 (July 2011 through June 2012).

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating policies and procedures for the MORE Center's cash management activity were reviewed through interviews with key personnel. The purpose of this review was to ensure that procedures are in place regarding the operational and fiscal administration of revenue and related activity. Documentation reviewed included payment account summaries, daily cash collection reports, monthly collection logs, bank deposit slips, bank statements and Louisville Metro financial system postings. Documentation was reviewed to determine the accuracy, completeness and timeliness of processing this activity. The review period was fiscal year 2012 (July 2011-June 2012).

The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of data.

Opinion

It is our opinion that the internal control structure for the MORE Center's cash management activity needs improvement. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls. Specific compliance results include the following.

- **Monitoring and Reconciliation.** Issues were noted in regards to the monitoring and reconciliation of the cash management activity.
 - There were instances where the total amount of funds on hand did not agree to the total amount collected on the revenue and activity report, resulting in an overage or shortage.
 - When cash register overages / shortages are identified, there is no investigation as to what caused the discrepancy. If overages / shortages are not documented and properly investigated, there is a risk that inappropriate transactions could go undetected.
 - There were instances where the daily reconciliation form was not signed by the supervisor or designee.
- **General Observations.** There were general observations noted regarding the cash management activity, including the following.
 - **Segregation of Duties.** There is not adequate segregation of duties. One employee is responsible for posting fees, accepting payments, preparing activity reports and preparing the deposit. This issue, along with a weak monitoring system, increase risks associated with revenue activity.
 - **Safeguarding Funds.** The key to the cash drawer is not safeguarded and is accessible to any employee at all times for convenience. This increases the risk for unauthorized access to the funds.

- **Cashiering Fund.** The MORE Center does not have a cashiering fund. The lack of a cashiering fund may result in staff being unable to provide the appropriate change due to a client.

Corrective Action Plan

Representatives from Public Health and Wellness have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Public Health and Wellness to ensure the actions taken are effective to address the issues noted.

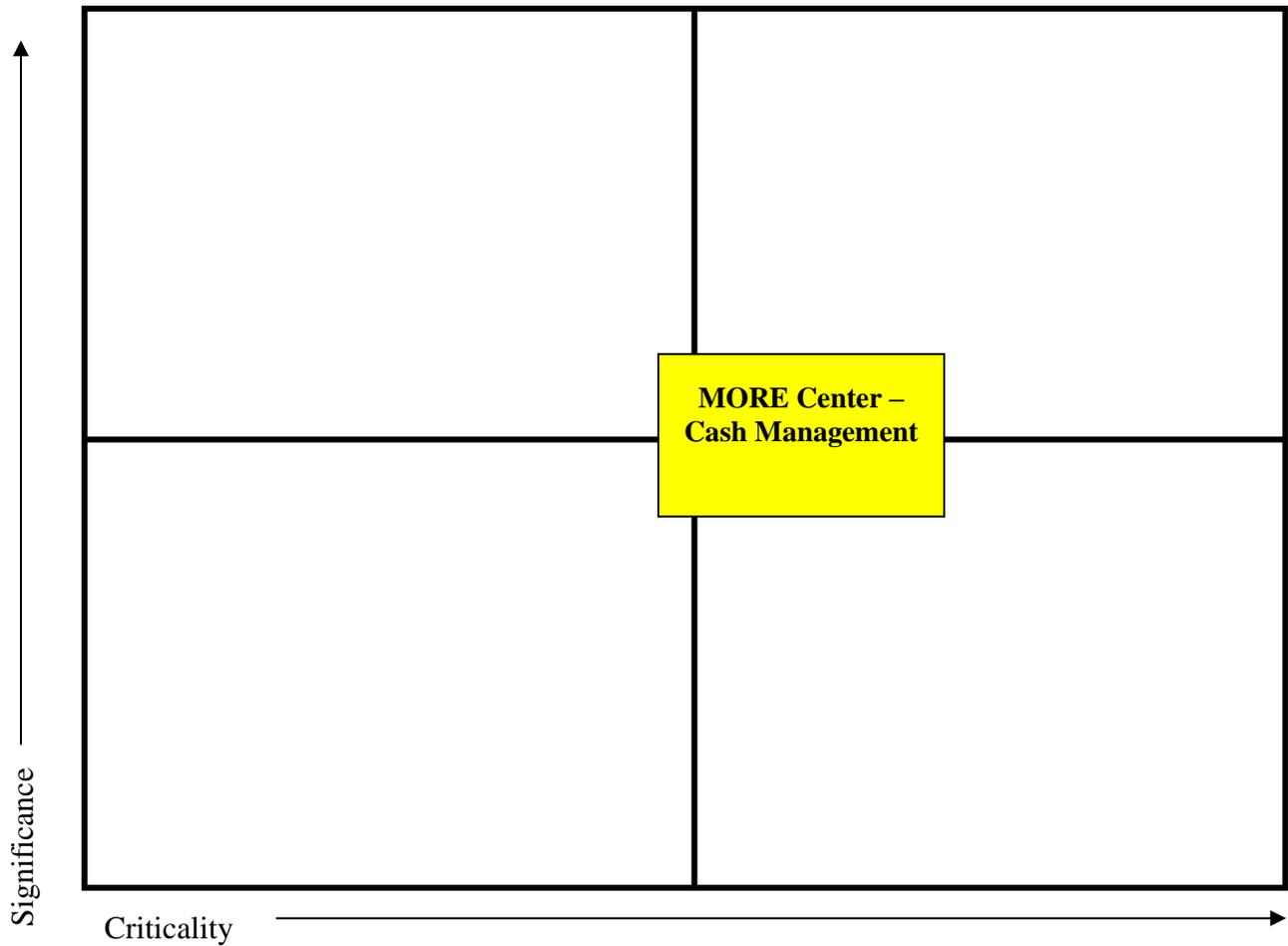
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council President
Louisville Metro Council Government Accountability and Ethics Committee
Director of Metro Health and Wellness
Louisville Metro External Auditors

Internal Control Rating



<i>Criteria</i>	<u>Satisfactory</u>	<u>Needs Improvement</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

The Methadone Opiate Rehabilitation & Education (MORE) Center, established in 1989, is under the administration of Public Health and Wellness. The program provides medically monitored drug treatment and related counseling services to patients who are physiologically dependent upon a narcotic drug such as heroin, morphine, and OxyContin. Research and clinic observations prove that most patients succeed in recovery and become productive citizens. The MORE Center is currently funded to serve 200 patients.

The fiscal year 2012 budget for the MORE Center is approximately \$1.4 million for methadone treatment services, funded through a federal grant award and program generated revenue.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit previously performed a review of the MORE Center revenue in 2003.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to Public Health and Wellness on August 16, 2013. An exit conference was held at Public Health and Wellness (400 East Gray Street) on August 29, 2013. Attending were Dr. LaQuandra Nesbitt, Tammy Anderson and Lavonne White representing Public Health and Wellness and Ingram Quick and Catina Rivera representing Internal Audit. Final audit results were discussed.

The views of Public Health and Wellness officials were received on September 20, 2013 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Public Health and Wellness response were provided within this required timeframe.

Observations and Recommendations

Scope

A thorough understanding of the cash management activity was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel, an examination of supporting documentation and obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling and reporting of activity. The purpose of this review was to ensure that procedures are in place regarding the operational and fiscal administration of revenue and related activity. Documentation reviewed included payment account summaries, daily cash collection reports, monthly collection logs, bank deposit slips, bank statements and Louisville Metro financial system postings. Documentation was reviewed to determine the accuracy, completeness and timeliness of processing this activity. The objective was to obtain reasonable assurance that the risks are adequately mitigated through the internal controls in the process.

A sample of 41 client records was examined for the period July 1, 2011 through June 30, 2012. The review consisted of examining documentation to provide assurance activity was processed accurately and appropriately. The review would not reveal all issues because it was based on a selective review of data.

Observations

Some issues were noted with the MORE Center's cash management activity. As a result, the internal control structure is weakened and its effectiveness is impaired. The observations are as follows:

- #1 Monitoring and Reconciliation
- #2 General Administration

Details of these begin on the following page.

#1 Monitoring and Reconciliation

Issues were noted with the monitoring and reconciliation of MORE Center's cash management activity. Specifics include the following.

- **Daily Reconciliation.** At the end of the day, an internal activity report is prepared. The report lists all of the detailed entries (activity) that were completed throughout the day. This report is used to reconcile the funds at the end of the day to prepare the deposit. There were several issues noted with the accuracy and completeness of the forms used for daily reconciliation. In addition, there were issues noted with the lack of documented review of the reconciliation activity. Specific examples include the following.
 - For twenty of the twenty nine days reviewed, the total amount of funds on hand did not agree to the total amount collected on the activity report, resulting in an overage or shortage.
 - When cash register overages / shortages are identified, there is no investigation as to what caused the discrepancy. If overages / shortages are not documented and properly investigated, there is a risk that inappropriate transactions could go undetected.
 - For nine of the twenty nine days reviewed, the daily reconciliation form was not signed by the supervisor or designee. Without the signature of a supervisor or designee, there is no assurance the reconciliation activity was reviewed.
 - The cashier and another employee (whoever is available) reconcile the receipts and cash / checks to the activity report and both employees sign the report. When there may be different individuals reviewing the reconciliation each day, it is possible that recurring overages and shortages will go undetected.

Recommendations

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ A major component of any reporting system is proper monitoring and reconciliation. It is imperative that administrative staff reviews information on a regular basis. This includes reviewing activity for appropriateness, completeness and adherence to requirements. This helps ensure transactions were processed as intended and properly recorded. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ MORE Center policies and procedures should include cash drawer overages and shortages. MORE Center staff should determine appropriate policies and procedures based on their business practices and system limitations. Personnel policies should be reviewed as disciplinary actions are considered. The policy should be documented, distributed, and discussed with all staff involved in cash handling and disciplinary processes. However, it is advised that if disciplinary action is connected to a particular shortage threshold, the amount of the threshold should not be publicized to staff.

- ✓ Any discrepancies noted during routine monitoring activities should be thoroughly investigated and the outcomes properly documented.
- ✓ Reconciliations should be documented. At a minimum, the reviewer's signature and date of review should be noted on activity reports to indicate the review was performed and the data appears appropriate.
- ✓ MORE Center policy and procedures should include a documented reconciliation process. Ideally, the process would include the supervisor or designee reviewing the daily reconciliation and documenting their review with a signature.

Public Health and Wellness Corrective Action Plan

LMPHW will work with their assigned OMB Business Manager to implement an internal cash management policy regarding addressing shortages and overages for the MORE center as well as other sites where fees are collected. A reconciliation protocol, reconciliation form and cash discrepancy report form will be developed. A copy of the reconciliation form and cash discrepancy forms will be submitted with the end of day paperwork to OMB. The Chief of staff and division director will be provided with a copy any cash discrepancy incident reports in the case of shortages and/or overages.

Implementation Date(s): Investigations – 9/20/13. Complete policy by 10/31.

The MORE supervisor, or designee in his absence, will verify the funds collected by counting down the drawer and receipts and will sign each day's reconciliation report. A specific regular designee has been assigned by the supervisor. The Department and OMB will work on developing cash management policies and this provision will be included in those policies.

Implementation Date(s): 9/20/13; Policy by 10/31/13

Two employees will complete the end of day reconciliation together. After both employees have counted and verified the funds collected, they will sign the activity report and the supervisor will then verify the reconciliation. The MORE center supervisor will devise a plan to ensure the same employees conduct the reconciliation in so much as possible. LMPHW will immediately require the supervisor or designee in his absence, to verify each day's reconciliation report and sign same.

Implementation Date: 9/20/13

#2 General Observations

There were general observations noted regarding the cash management activity. Specifics include the following.

- **Segregation of Duties.** There is not adequate segregation of duties for the MORE Center cash management activity. The cashier is responsible for the billing, receipt, recording, and preparation for the deposit. Segregating key duties within an operation helps ensure that errors or irregularities are prevented or detected by employees in the normal course of business. This issue, along with a weak monitoring system, increases the risks that errors or inappropriate activity could go undetected.
 - There are no system controls in place that require supervisory oversight or review when fees are removed and / or adjusted. This increases the risk of fees being entered and / or removed from the cashiering system inconsistently and inappropriately.
 - The cashier has the ability to run system activity reports in the absence of supervisory personnel. This allows the cashier to be aware of the system's revenue receipt balance prior to its official closing, and could result in an individual making unauthorized adjustments to ensure actual cash on hand agrees. This weakens the report's usefulness as an internal control / reconciliation tool and increases the risk that funds could be diverted for personal use without detection.
- **Safeguarding Funds.** Safeguarding of assets is the responsibility of all employees. Items with portability and attractiveness risks (e.g., cash, checks) need to be properly accounted for at all times.
 - Funds processed through the MORE Center are placed in a cash drawer located in a locked filing cabinet. The cash drawer is primarily used by one member of the MORE Center staff, but occasionally other staff members use it when necessary (during lunch breaks, etc.).
 - The key to the cash drawer is not safeguarded and accessible to all employees. This increases the risk for unauthorized access to the funds.
 - After the reconciliation of funds at the end of the day, the cash / checks and deposit slip are placed in a locked deposit bag and put in a lock box to await pick-up by the courier the following business day.
 - The cashier has a key to the deposit bag and has access to the lockbox key in the event he / she would need to access the funds. The cashier should not have access to funds after reconciliation. This weakens accountability for the funds.
- **Deposit Timeliness.** According to Louisville Metro Office of Management and Budget's Cash Management Policies, cash and check receipts over \$1,000 should not remain at a department site for more than one business day. Holding funds that are ready for deposit increases the risk of loss or misplacement and reduces Metro's ability to capitalize from interest on investments.
 - For one of the twenty nine days reviewed, the daily revenue was not deposited into the bank account within one business day.

- **Cashiering Fund.** According to the Louisville Metro Health Department's Cash Handling Procedures, each staff member who collects money from clients should be assigned a lockable cash bag / box (cashiering fund) that contains a minimum bank of \$20 on a daily basis.
 - The MORE Center does not have a cashiering fund. The lack of a cashiering fund may result in staff not being able to provide the appropriate change due to a client.

Recommendations

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Proper segregation of duties is an integral part of an effective internal control structure. When proper segregation of duties exists, no one person in an organization is in a position to both perpetrate and conceal, in the normal course of their duties, a misstatement. The same individual should not be responsible for performing sales transactions, posting receipts, collecting and preparing deposits. Due to staff size constraints, complete segregation may not be feasible. In order to compensate for these constraints, appropriate monitoring and supervisory oversight are critical.
- ✓ All appropriate fees should be listed on the fee schedule and if possible, be uploaded into the Avatar cashiering system. Clients should only be charged fees listed on the fee schedule. This will ensure consistency and appropriateness in payments and reporting.
- ✓ To the extent possible, the same individuals should not have the ability to receive payments and prepare activity reports. This ability should be limited to an individual independent of the revenue receipts. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring).
- ✓ The cash drawer should be locked at all times and the key should be placed in a secure location, accessible only to the employee currently working the cash drawer. This will increase accountability over the funds.
- ✓ Revenue stored awaiting deposit should be maintained in a secure location with minimal access.
- ✓ All funds should be deposited in a timely manner in accordance with the Office of Management and Budget's Cash Management Policies (weekly, unless cash receipts are over \$1,000, then within one business day). This will help ensure the security of funds and optimize investment income for Louisville Metro operations.
- ✓ A cashiering fund should be established for the MORE Center. This fund would provide a starting bank for the cash drawer in order to make change available for clients if needed.

Public Health and Wellness Corrective Action Plan

The Department will work with the OMB Business Manager to develop a plan to address segregation of duties. The Department is currently seeking a new I.T. system to strengthen financial controls. Restrictions will be placed on running the end of day cash report so that only the supervisor or designee in his absence can run the report. Employees will not be allowed to make adjustment in the Avatar system without completing an adjustment request and submitting to the supervisor for approval.

Implementation Date(s): Report and adjustment changes 9/20/13; policy 10/31/13

The Department is currently seeking a new I.T. system to strengthen financial controls. Restrictions will be placed on running the end of day cash report so that only the supervisor or designee in his absence can run the report. Employees will not be allowed to make adjustment in the Avatar system without completing an adjustment request and submitting to the supervisor for approval. The supervisor will review the end of day cash report during the reconciliation process to ensure no adjustments have been made without approval.

Implementation Date: 9/20/13

There is currently only one key available to the cash drawer. The key will be assigned to one staff member at the beginning of the day and only transferred to another staff member if it is necessary for proper coverage. If the cash drawer is transferred to another employee, the drawer and receipts will be counted down before the transfer and once again if transferred back to the original cashier. The information will be entered on the reconciliation form in the space provided for transfers, and each employee will initial the amounts listed. The key will be locked in a secure place to be determined by the supervisor after business hours.

The Department plans to purchase another cash drawer to assign to the employee responsible for cashier backup. Key access will be treated the same for this drawer as stated above. Both drawers will be reconciled and reported on a separate reconciliation form at the end of the day.

Implementation Date: 9/20/13

The cashier will have a key to the deposit bag. After reconciliation, will walk with designated staff/supervisor to nursing window. Nurses will have separate key to lockbox. The lockbox key will not be available to the cashier. The deposit bag will be handed to the nurses and who will immediately place into the lockbox. The nurses will not have a key to the deposit bag. For overnight storage, the nurses will put lockbox into the safe.

Implementation Date: 9/20/13

The MORE Center no longer directly deposits funds into the bank account. The funds are carried via carrier to OMB Business Office for deposit.

LMPHW considers one late deposit in twenty-nine to be an anomaly and doesn't expect compliance to this policy to be a problem in the future. The supervisor will be required to include a report with the cash report indicating why a deposit is not made timely.

Implementation Date: 9/20/13

The MORE Center now has a cashing fund.

Implementation Date: Current

Office of Internal Audit

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