



PRINCE WILLIAM COUNTY, VIRGINIA

Prince William County, Virginia
Internal Audit of the
Cash Collection and Handling Process

- **Tax Administration**
- **Development Services**
- **Library Services**

Prepared By:
Internal Auditors

April 29, 2015



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April 29, 2015

The Audit Committee of
Prince William County, Virginia
1 County Complex Court
Prince William, Virginia 22192

Pursuant to the approved internal audit plan for fiscal year (“FY”) 2014/2015 for Prince William County, Virginia (the “County”), we hereby present the internal audit of the cash collection and handling process for Tax Administration, Development Services and Library Services. We will be presenting this report to the Audit Committee of Prince William County at the next scheduled meeting on August 4, 2015. Our report is organized in the following sections:

Executive Summary	This provides a summary of the issues and observations related to our internal audit of the cash collection and handling process.
Background	This provides an overview of the cash collection and handling process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
Issues Matrix	This section gives a description of the items noted during our internal audit and recommended actions as well as management’s response, responsible party and estimated completion date.
Process Map	This section provides a process map depicting the flow of the selected division or department cash collection and handling processes.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with the internal audit of the cash collection and handling process.

Respectfully Submitted,

INTERNAL AUDITORS

Executive Summary

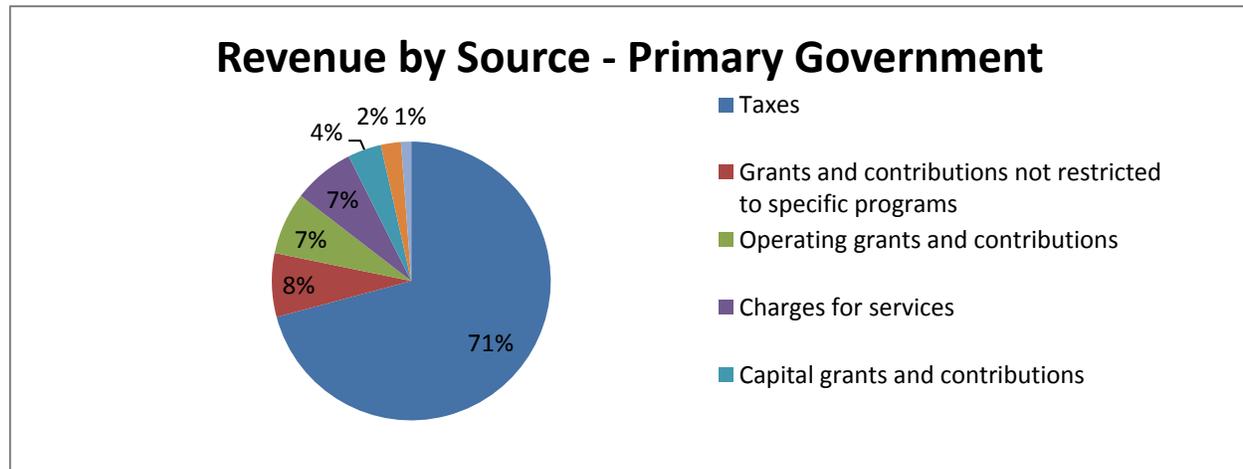
Executive Summary

The primary objective of this audit was to assess whether the system of internal controls over the cash collection and handling process is adequate and appropriate for promoting and encouraging the achievement of management’s objectives for effective cash management and safeguarding. We selected the following departments for the execution of our detailed analysis and testing:

Finance Department/Tax Administration Division	Large volume of cash receipts in dollars and number of transactions, high level of interaction with the public. Tax Administration is also tasked with depositing and recording revenues collected at most other County departments/agencies in addition to tax collections
Development Services	Large volume of cash receipts in dollars and number of transactions, high level of interaction with the public
Library Services	Decentralized operations with cash collected at 10 separate locations, high level of interaction with the public

Our testing covered the process in its current state and Cash Collections and Handling activity for the period September 1, 2014 through November 30, 2014.

Prince William County’s cash collection process is decentralized with multiple cash collection points established across the County, making it inherently more challenging to control. The County reported \$1.1 billion in total primary government revenue in its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2014. The County generally receives revenue from taxes, charges for services, investment earnings, grants and other contributions. The majority of the County’s revenue is composed of taxes, which represented 71% of the primary government’s overall revenue for the fiscal year ended June 30, 2014. The graph below shows the breakdown of County revenue by source.



Source: FY 2014 CAFR

The County’s current Cash Management and Revenue Recognition Policy (“Policy”) was issued effective June 1, 2013. The policy’s stated purpose is to establish a framework for guidance to ensure appropriate procedures are followed for cash collections, deposits, reconciliations, security and revenue recognition while promoting good internal controls supporting reliability of financial reporting for the County. The policy requires that every department establish written procedures for cash handling/collection, recordation, reconciliation and remittances. The Policy allows for variation in the procedures between departments/agencies based on the inherent differences in their operations as long as the procedures meet the policy’s minimum cash handling and revenue recognition internal control standards. Any exceptions to the standard control procedures must be approved by the Director of Finance and supported by alternative or compensating control procedures.

Executive Summary - continued

The Finance Department is currently reviewing the Cash Management and Revenue Recognition Policy and is drafting a revised policy, procedure, and best practice documents, to be issued in calendar year 2016. As part of this review, Finance staff have presented the draft revised policy and procedure to selected departments for input and will incorporate the departments' comments and suggestions where appropriate. The goal of the review is to create authoritative literature that suits the County's current operations, meets internal control requirements, and does not conflict with other County policies.

Cash collection and handling involves those activities performed to process cash collection transactions in the ordinary course of business at the many decentralized cash collection points across the County. It encompasses all point of sale transactions between the County and program participants at each location. The County accepts payment by cash, check, money order, electronic fund transfer, and credit card. The County Finance Department's Tax Administration Division is responsible for posting cash collections from all sources in the County's financial accounting and reporting system.

Cash collection and handling functions include the following activities:

- Collecting and receipting funds received from customers;
- Proper 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 in good standing;
- Recording of payment in the point of sale system or other records;
- Preparation of periodic reconciliation and remittances;
- Remitting funds to Tax Administration department for verification and deposit;
- Verification of remittances and preparation of deposits on behalf of other departments (Tax Administration);
- Recording revenue in the general ledger;
- Verification that collections were posted to the proper general ledger account;
- Performing reconciliations of bank accounts; and
- Reconciling credit card, ACH electronic funds transfers, and other electronic funds receipts to deposit records.

Tax Administration, a division of the Finance Department, is responsible for important steps in the cash collection and handling process including collecting all property taxes, and depositing and recording revenues in the general ledger. The Division is tasked with depositing and recording revenues collected at most other County departments/agencies in addition to tax collections. The Division's other functions include enrolling and assessing personal and business property for local taxation, billing taxes, and enforcing compliance with local tax laws.

As stated in the current Cash Management and Revenue Recognition Policy, the timely deposit and posting of revenue and other receipts is required to ensure:

- Loss prevention;
- Improved cash flow;
- Adequate and timely cash planning and forecasting;
- Facilitation of bank reconciliation;
- Effective management of the County's investment portfolio;
- Increased interest revenue from pooled cash; and
- Compliance with Generally Accepted Accounting Principles (GAAP).

Executive Summary - continued

Operational and Performance Analysis

Organization and Structure

Tax Administration, a division of the Finance Department, is responsible for important steps in the cash collection and handling process including collecting all property taxes, and depositing and recording revenues in the general ledger. We performed the following analysis of the County Tax Administration Division's staffing over time, and as compared to other jurisdictions:

Staffing Ratios

Revenue / Tax Administration Staff to Population Ratio

The County's population has increased by 55% since fiscal 1999. During that same period, the Tax Administration Division's staffing has increased by only 14%. A history of the Tax Administration Division's staff to population ratio is as follows:

	FY 1999	FY 2012	FY 2013	FY 2014	FY 2015
FTE Positions	56	61	63	64	64
Population	277,359	413,396	418,395	424,677	430,959
Ratio	1 to 4,953	1 to 6,777	1 to 6,641	1 to 6,636	1 to 6,734

Source: Prince William County Budget Document

Revenue / Tax Administration Staff to Number of Tax Bills Ratio

The County's number of tax bills has increased by 58% since the 1999 tax year. During that same period, the Tax Administration Division's staffing has increased by only 14%. A history of the Tax Administration Division's staff to number of tax bills ratio is as follows:

	1999 Tax Year	2012 Tax Year	2013 Tax Year	2014 Tax Year
FTE Positions	56	61	63	64
Tax Bills	473,132	727,676	739,523	746,761
Ratio	1 to 8,449	1 to 11,929	1 to 11,738	1 to 11,668

Source: Prince William County Budget Document

Comparable Virginia Government Entities Revenue / Tax Administration Staff to Population Ratios

Revenue / Tax Administration Staff to Population

The below is a comparison of Revenue / Tax Administration staff to population utilizing data from the respective FY 2015 budget documents.

	Prince William County	Loudoun County*	Fairfax County	Chesterfield County*	City of Norfolk*	City of Virginia Beach*	City of Alexandria	Arlington County*
Revenue / Tax Admin. FTE	64	78	283	94	73	142	51	114
Population	430,959	351,611	1,130,924	328,000	246,000	430,000	147,391	215,000
Ratio	1 to 6,734	1 to 4,508	1 to 3,996	1 to 3,489	1 to 3,370	1 to 3,028	1 to 2,890	1 to 1,886

Source: Respective CAFR's and budget documents

*Constitutional Treasurer's Office

Executive Summary - continued

Operational and Performance Analysis - continued

Revenue / Tax Administration Staff to General Tax Revenue Ratios

The below is a comparison of Revenue / Tax Administration staff, per the FY 2015 budget documents, to general tax revenues, per the FY 2014 Comprehensive Annual Financial Reports.

	Loudoun County*	Prince William County	Fairfax County	City of Alexandria	Arlington County*	City of Virginia Beach*	City of Norfolk*	Chesterfield County*
Revenue / Tax Admin. FTE	78	64	283	51	114	142	73	94
General Tax Revenue (000's)	\$1,066,374	\$784,017	\$3,124,384	\$535,206	\$997,051	\$813,920	\$415,856	\$463,632
Ratio	1 to 13,671	1 to 12,250	1 to 11,040	1 to 10,494	1 to 8,746	1 to 5,732	1 to 5,697	1 to 4,932

Source: Respective CAFR's and budget documents

*Constitutional Treasurer's Office

The County Tax Administration Division's staffing ratio is lower than the other Virginia jurisdictions.

Executive Summary - continued

The following section provides a summary of the issues identified during our procedures. We have assigned relative risk factors to each issue identified. A summary of issues identified and their relative risk rating is provided below. 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 including financial, operational, and/or compliance as well as public perception or 'brand' risk when determining the relative risk rating. 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.

The details of these issues are included within the Issues Matrix section of this report.

Issues	Risk Rating
Tax Administration Division	
1. Safeguarding of Funds	High
<p>We noted the following safeguarding of funds issues:</p> <p><u>Safe Not Accessed Under Dual Control</u> During our observations of the cash collection process at the McCoart Taxpayer Services location, we noted that the Tax Administration Division does not follow the two-party rule for accessing the safe, required by the Cash Management and Revenue Recognition Policy, and that the Division's safes are routinely accessed by one employee.</p> <p><u>Safe Combinations</u> The safe combinations for two of this division's safes have not been changed in over 14 years. The McCoart Revenue Accounting safe combination was last changed in 1999 and the Sudley safe combination was last changed in March 2000. Failure to change the safe combination increases the risk of misappropriation of funds.</p> <p><u>Security Cameras</u> There are no security cameras that capture views of the following cash receipt and handling processes: processing mailed payments, safe access, deposit verification, and remittance preparation. The payment collection counters at all Tax Administration locations are equipped with security cameras, but they are positioned with views that monitor only counter activity and are not intended to cover the safe or areas where the remittances are counted and deposits are prepared.</p>	
2. Segregation of Duties	Moderate
<p>The duties of cash collection and recording are not properly segregated. The same employees who collect cash at the Taxpayer Services counter are responsible for making adjustments to payments and receivables. This is a violation of the segregation of duties principle and is not in compliance with the Cash Management and Revenue Recognition Policy. Adequate segregation of duties helps prevent misappropriation and mishandling of funds and aids in the detection of errors and irregularities.</p>	

Executive Summary - continued

Issues	Risk Rating
Tax Administration Division – continued	
3. Deposit Timeliness	High
<p>The Tax Administration Division is responsible for verifying remittances, depositing funds, and posting related revenues for most of the County’s departments/agencies. We performed testing of a sample of 30 remittances from the three selected departments, noting the following:</p> <ul style="list-style-type: none"> • Library Services: Eight of the ten selected remittances were deposited more than three business days after the date the remittances were received by Tax Administration. They were deposited between four and six business days after receipt in the Tax Administration Division. They were deposited between five and 13 business days after initial receipt by Library Services. • Development Services: Five of the ten selected remittances were deposited more than three business days after the date the remittances were received by Tax Administration. They were deposited between four and six business days after receipt in the Tax Administration Division. They were deposited between seven and eight business days after initial receipt by Development Services. <p>Failure to make timely deposits could result in inaccurate records or misappropriated funds.</p>	
4. Posting Delays	High
<p>The Tax Administration Division is responsible for verifying remittances, depositing funds, and posting related revenues for most of the County’s departments/agencies. We performed testing of a sample of 30 remittances from our selected departments and noted that although the remittances were posted to the general ledger prior to the closing of the month in which they were received, all remittances were posted 10 business days (2 weeks) or more after received.</p> <ul style="list-style-type: none"> • Library Services: All ten of the selected remittances were posted more than two weeks after the date the remittances were received by Tax Administration. They were posted between 12 and 25 business days (2 – 5 weeks) after receipt in the Tax Administration Division. • Development Services: All ten of the selected remittances were posted more than three weeks after the date the remittances were received by Tax Administration. They were posted between 21 and 34 business days (4 – 7 weeks) after receipt in the Tax Administration Division. • Taxpayer Services: All ten of the selected remittances from the Taxpayer Services locations were posted more than two weeks after the date the remittances were received by the revenue accounting team in Tax Administration. They were posted between 12 and 30 business days (2 - 6 weeks) after receipt by the revenue accounting team. <p>The departments rely on information in the general ledger as part of their fiscal duty for planning, decision making and monitoring. If revenues are not posted to the general ledger on a timely basis, the County’s official financial reporting system will not reflect the true fiscal status of the various departments/agencies which could result in management or policy decisions being made based on inaccurate information.</p>	
5. Documented Cash Collection and Handling Procedures	Moderate
<p>Formal written procedures over cash collection and handling have not been established as required by the Cash Management and Revenue Recognition Policy.</p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	

Executive Summary - continued

Issues	Risk Rating
Development Services Department	
1. Safeguarding of Funds	High
<p><u>Safe Not Accessed Under Dual Control</u> During our observations of the cash collection process at Development Services, we observed that the department does not follow the two-party rule for accessing the safe, required by the Cash Management and Revenue Recognition Policy, and that the department's two safes are routinely accessed by a single employee.</p> <p>Under the two-party rule, fraud risk is reduced as the two employees involved in a given transaction observe and check each other's actions. Requiring dual custody and access also protects employees as they do not access the safe on their own.</p> <p><u>Safe Combination</u> The Building Development Division safe combination has not been changed since it was purchased 12 years ago. Failure to change the safe combination increases the risk of misappropriation of funds.</p> <p><u>Security Cameras</u> There are no security cameras that capture views of the following cash receipt and handling processes: customer payment collection, mailed payment processing, safe access, deposit verification, and remittance preparation. Failure to ensure cash is properly safeguarded may result in theft or loss of County funds.</p>	
2. Documented Cash Collection and Handling Procedures	Moderate
<p>While the department has distributed emails, memos and other communication covering cash collection and deposit preparation, the current process has not yet been documented in formal written procedures. The department previously self-identified this as an internal control weakness and is developing a department-level fiscal policy and procedure manual, with expected completion date of June 2015.</p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	
3. Remittance Verification	Low
<p>We noted that the department's remittances are verified by only one employee prior to submission to the Tax Administration Division. The full deposit remittance is not verified by a second employee, as required by County policy. The individual cash and check batches are verified and signed off by each cashier, but the total daily remittance is only counted and signed for by one employee.</p> <p>Failure to properly verify funds remitted for deposit may lead to longer processing times, posting errors, and discrepancies between agency and general ledger records.</p>	

Executive Summary - continued

Issues	Risk Rating
Library Services Department	
1. Cash Collection and Handling	High
<p><u>Shared cash drawers</u> We noted the following regarding controls over the cash drawer:</p> <ul style="list-style-type: none"> • Multiple employees work from a shared cash drawer, commingling their transactions; • Accountability over cash is not required for shift changes, i.e. cash drawers are not counted when shift changes occur; • Cash drawer reconciliations may not be performed by the respective cash collectors; and • Unique user ID's are not utilized to the Point-of-Sale (POS) system and consequently, transactions may not be traced to specific employees based on cash drawer ownership. <p>Lack of individual accountability increases the risk that an error or cash shortage would not be traceable to the responsible employee.</p> <p><u>Identity validation for check payments</u> When a patron pays by check, library employees do not request the patron's driver's license or other state issued identification to validate their identity. This is not consistent with the County's Cash Management and Revenue Recognition Policy, which requires review of the driver's license or state identification card to validate the identity of each patron paying by check. The department's written cash collection and handling procedures ("Revenue Procedures Manual") do not cover identity verification steps. Proper check acceptance procedures, including identity verification, reduce the risk of loss due to bad checks or fraud.</p>	
2. Segregation of Duties	High
<p>The duties of cash collection/custody and recording are not properly segregated. The same Library employees who collect cash at the circulation desk are responsible for performing the daily reconciliation and preparation of remittances/invoices. This is a violation of the segregation of duties principle and is not in compliance with the Cash Management and Revenue Recognition Policy. Adequate segregation of duties helps prevent misappropriation and mishandling of funds and aids in the detection of errors and irregularities.</p>	
3. Safeguarding of Funds	Low
<p><u>Safe Combinations/Locks</u> The locks on all but one of the library safes have not been changed since they were installed over 20 years ago. Failure to change the safe combination or safe lock increases the risk of misappropriation of funds.</p>	
4. Documented Cash Handling Procedures	Low
<p>The department's current Revenue Procedures Manual does not cover the following areas required by the Cash Management and Revenue Recognition Policy: summary explaining segregation of duties; number of cash collection points; list of primary and backup employees authorized to collect and record cash and their related responsibilities; and accounting procedures, including management of accounts receivable (including collection efforts) and returned checks.</p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations</p>	

Executive Summary - continued

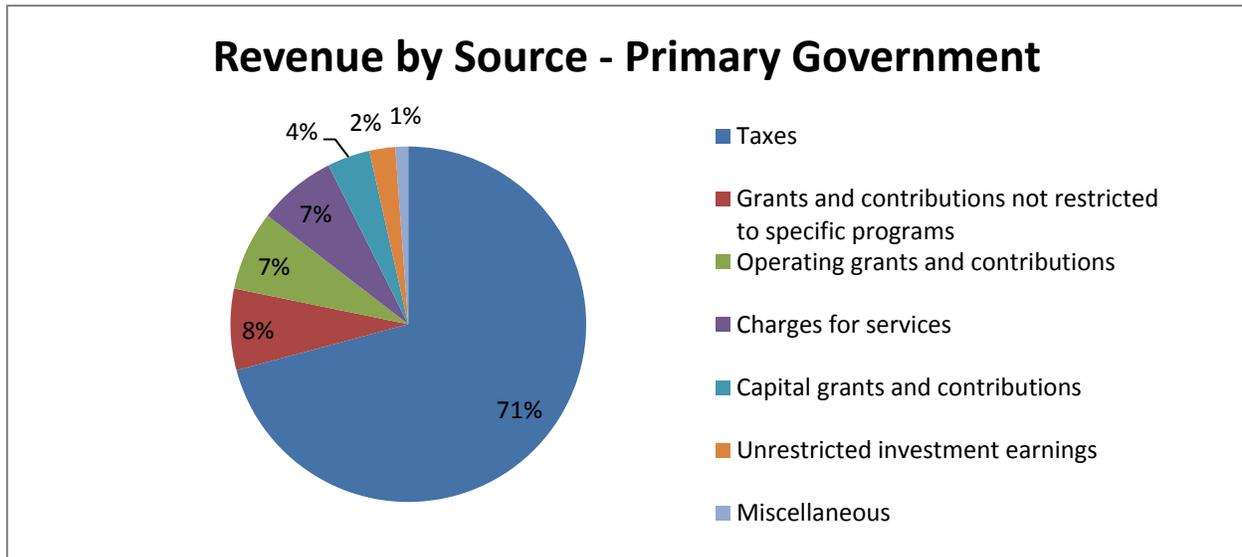
Issues	Risk Rating
County-Level	
1. Cash Collection Point Monitoring and Site Reviews	High
<p><u>Cash Collection Point Monitoring</u> The Finance Department is responsible for maintaining a listing of all cash collection points, all of which must be authorized by the Finance Department before collection operations begin. Cash collection points are authorized through submission and approval of a cash collection point authorization form. Based on our review of the documentation on file, we were unable to determine if 14 departments/agencies have collection points. Failure to properly monitor cash collection points could lead to unidentified internal control weaknesses, increased risk of error or theft, and non-compliance with County policy.</p> <p><u>Cash Collection Point Site Reviews</u> Under the County's Cash Management and Revenue Recognition Policy, cash handling and collection operations must be subject to unannounced Finance Department or Internal Audit review. No on-site reviews of cash handling processes have been conducted for any of the County's approved cash collection points. Periodic site visits and review of cash collection sites will enhance oversight and encourage compliance with policy.</p>	
2. Background Checks	Moderate
<p>Per Human Resources Department records, background checks were not conducted on 36 of the 104 employees hired into cash handling positions since June 1, 2013, the effective date for the background check requirement in the County's Cash Management and Revenue Recognition Policy. Background checks help prevent theft or fraud, and are an important step in verifying the integrity and past ethical behavior of candidates for jobs with cash handling responsibilities.</p>	
3. Cash Management and Revenue Recognition Policy	Low
<p>We reviewed the County's Cash Management and Revenue Recognition Policy and compared it to current and public sector practices, noting the following suggestions for possible improvements:</p> <ul style="list-style-type: none"> • Over/short activity should be recorded and monitored by employee on an ongoing basis, not just individual over/short instances. This will aid in identifying unusual patterns or frequent discrepancies. • Cash handling duties should be periodically rotated among employees to deter and detect fraud. • Periodic surprise counts should be required of cash drawers, change funds, or other cash on hand to deter and detect theft or other fraudulent activity. • All employees with cash handling duties should certify that they have read and understand the requirements of the Cash Management and Revenue Recognition Policy (or department/agency level procedures, if applicable). 	

Background

Background

Overview

Prince William County reported \$1.1 billion in total primary government revenue in its Comprehensive Annual Financial Report (“CAFR”) for the fiscal year ended June 30, 2014. The County generally receives revenue from taxes, charges for services, investment earnings, grants and other contributions. The majority of the County’s revenue is composed of taxes, which represented 71% of the primary government’s overall revenue for the fiscal year ended June 30, 2014. The graph below shows the breakdown of County revenue by source.



Source: FY2014 CAFR

Cash collection and handling involves those activities performed to process cash collection transactions in the ordinary course of business at the many decentralized cash collection points across the County. It encompasses all point of sale transactions between the County and program participants at each location. The County accepts payment by cash, check, money order, electronic fund transfer, and credit card. The County Finance Department’s Tax Administration Division is responsible for posting cash collections from all sources in the County’s financial accounting and reporting system.

Cash collection and handling functions include the following activities:

- Collecting and receipting funds received from customers;
- Proper 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 in good standing;
- Recording of payment in the point of sale system or other records;
- Preparation of periodic reconciliation and remittances;
- Remitting funds to Tax Administration Division for verification and deposit;
- Verification of remittances and preparation of deposits on behalf of other departments (Tax Administration);
- Recording revenue in the general ledger;
- Verification that collections were posted to the proper general ledger account;
- Performing reconciliations of bank accounts; and
- Reconciling credit card, ACH electronic funds transfers, and other electronic funds receipts to deposit records.

Background - continued

Cash Management and Revenue Recognition Policy

The County's current Cash Management and Revenue Recognition Policy ("Policy") was issued effective June 1, 2013. The policy's stated purpose is to establish a framework for guidance to ensure appropriate procedures are followed for cash collections, deposits, reconciliations, security and revenue recognition while promoting good internal controls supporting reliability of financial reporting for the County. The policy requires that every department establish written procedures for cash handling/collection, recordation, reconciliation and remittances. The Policy allows for variation in the procedures between departments/agencies based on the inherent differences in their operations as long as the procedures meet the policy's minimum cash handling and revenue recognition internal control standards. Any exceptions to the standard control procedures must be approved by the Director of Finance and supported by alternative or compensating control procedures.

The Finance Department is currently reviewing the Cash Management and Revenue Recognition Policy and is drafting a revised policy, procedure, and best practice documents, to be issued in calendar year 2016. As part of this review, Finance staff have presented the draft revised policy and procedure to selected departments for input and will incorporate the departments' comments and suggestions where appropriate. The goal of the review is to create authoritative literature that suits the County's current operations, meets internal control requirements, and does not conflict with other County policies.

The current policy states that any department, agency, division, or unit involved with collecting cash is required to:

- Establish and comply with written, specific and effective procedures for receiving and accounting for public funds belonging to or handled by the County including but not limited to cash, revenue and accounts receivable;
- Ensure proper documentation and approvals exists for funds received and deposited;
- Ensure checks and balances and segregation of duties exist over cash collections, and cash logs, recordation, deposits and remittances, and reconciliations, and documentation is retained in accordance with the Record Retention and Disposition Schedule published by the Library of Virginia, *Code of Virginia* § 42.1-85;
- Delegate responsibilities in a manner where proper segregation of duties exists;
- Review and confirm adequacy of the procedure prior to approval of cash collections, recordation, deposits and reconciliations, revenue recognition and accounts receivable in order to ensure reasonable controls exist;
- Ensure all funds received are remitted to the Tax Administration Division for appropriate and timely deposit and revenue recognition; and
- Ensure revenue is appropriately coded and recorded in the County's financial accounting & reporting system in a timely manner.

Operational and Performance Analysis

Organization and Structure

Tax Administration, a division of the Finance Department, is responsible for important steps in the cash collection and handling process including collecting all property taxes, and depositing and recording revenues in the general ledger. The Division is tasked with depositing and recording revenues collected at most other County departments/agencies in addition to tax collections. The Division's other functions include enrolling and assessing personal and business property for local taxation, billing taxes, and enforcing compliance with local tax laws.

Background - continued

Operational and Performance Analysis – continued

Organization and Structure - continued

As stated in the current Cash Management and Revenue Recognition Policy, the timely deposit and posting of revenue and other receipts is required to ensure:

- Loss prevention;
- Improved cash flow;
- Adequate and timely cash planning and forecasting;
- Facilitation of bank reconciliation;
- Effective management of the County's investment portfolio;
- Increased interest revenue from pooled cash; and
- Compliance with Generally Accepted Accounting Principles (GAAP).

Staffing Ratios

Revenue / Tax Administration Staff to Population Ratio

The County's population has increased by 55% since fiscal 1999. During that same period, the Tax Administration Division's staffing has increased by only 14%. A history of the County's Tax Administration Division staff to population ratio is as follows:

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Operational and Performance Analysis - continued

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The County Tax Administration Division's staffing ratio is lower than the other Virginia jurisdictions.

Objectives and Approach

Objectives and Approach

Objectives

The primary objective of this audit was to assess whether the system of internal controls over the County-Wide cash collection and handling process is adequate and appropriate for promoting and encouraging the achievement of management's objectives for compliance with County policy and effective cash handling and safeguarding.

Approach

Our audit approach consisted of the following three phases:

Understanding and Documentation of the Process

During this phase, we conducted interviews with the Director of Finance and Tax Administration personnel to discuss the scope and objectives of the audit work, obtained preliminary data, and established working arrangements. We also obtained copies of and reviewed policies, procedures and other documents applicable to the cash collection and handling function. We then conducted individual entrance conferences with representatives from the selected departments to obtain an understanding of each department's cash collection and handling process, and identify related risks and applicable controls. We also developed flowcharts of the selected departments' processes, which are included in this report.

Detailed Testing

We performed walkthroughs and detailed testing utilizing sampling and other auditing techniques to meet our audit objectives outlined above. Our testing covered the process in its current state and Cash Collections and Handling activity for the period September 1, 2014 through November 30, 2014. Specific procedures performed included:

- Observation of cash collections and handling at the selected locations;
- Evaluation of department's processes for risk mitigation and compliance with the County's Cash Management and Revenue Recognition Policy;
- Obtaining and analyzing information on background checks performed on employees with cash collection and handling responsibilities from Human Resources in accordance with the County's Cash Management and Revenue Recognition Policy;
- Obtaining and analyzing information on cash collection point forms submitted to Finance and delinquent departments/agencies;
- Testing a sample of individual cash receipts from the selected departments for the following:
 - Timely receipting and proper receipting method used;
 - Timely reconciliation of collections;
 - Proper follow up and documentation of any discrepancies;
 - Accuracy of department remittance form total; and
 - Compliance with County policy and best practice cash handling procedures;
- Testing a sample of deposit remittances from the three selected departments for the following:
 - Remittance documents in proper format, completed fully, accompanied by required documentation, and signed by the remitter and approver;
 - Accuracy of remittance document calculations;
 - Revenue category recorded on the remittance document agrees to receipts; and
 - Remittances made timely in accordance with the County policy;
- Testing a sample of deposits for the following:
 - Remittance document returned to department contains Tax Administration Division verification evidence;
 - Collections posted to the correct general ledger account;
 - Collections posted timely in accordance with County policy; and
 - Deposits made timely in accordance with County policy.

Reporting

At the conclusion of this audit, we vetted the facts and exceptions noted with the selected departments. We have reviewed the results of our testing with the Director of Finance and employees from the selected departments as follows: Director and Administrative Analyst, Development Services; Director and Associate Director for Financial Management, Library Services; Division Chief and Revenue Accounting Supervisor, Tax Administration.

Issues Matrix

Tax Administration

Tax Administration

Rating	Issue
High	1. Safeguarding of Funds
<p><u>Safe Not Accessed Under Dual Control</u> The County's Cash Management and Revenue Recognition Policy includes a requirement that all departments follow the "Two Party Rule" when placing and removing items in their safes. This rule requires that two employees must be present when the safe is accessed. The Cash Management and Revenue Recognition Policy, Section 300.1.2 F.2, states that, <i>"one staff member deposits/removes the item(s) and the other re-counts the amount deposited/withdrawn...Both staff members must initial the log to ensure the protection of all staff members in case of discrepancy. Documentation (e.g. sign-in/sign-out logs) must be maintained to track the name and signature of the individuals accessing the safe, time the safe was operated, and amount deposited or withdrawn."</i></p> <p>During our observations of the cash collection process at the McCoart Taxpayer Services location, we noted that the Tax Administration Division does not follow the two-party rule and that the Division's safes are routinely accessed by one employee. Per Tax Administration management, staffing limitations have prevented the division from implementing a dual access procedure for opening the safe.</p> <p>The division requested and received an approved exception to the dual access requirement from the former Director of Finance, which states that the safes will be located in locked offices with monitoring devices and that the only employees authorized to access the safe on their own are the designated safe custodian and the alternate, who are accountable and responsible for the safe contents. While the safes are located in locked office suites, there are no monitoring devices in place to record access to the safes. The combination to each safe is held by a designated safe custodian and two to four alternate custodians who are authorized to access the safe without a second employee present.</p> <p>Under the two-party rule, fraud risk is reduced as the two employees involved in a given transaction observe and check each other's actions. Requiring dual custody and access also protects employees as they do not access the safe on their own.</p> <p><u>Safe Combinations</u> Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5 states that <i>"safe combinations shall be changed periodically and whenever staffing changes occur among those that have knowledge of the combination."</i> The safe combinations for two of this division's safes have not been changed in over 14 years. The McCoart Revenue Accounting safe combination was last changed in 1999* and the Sudley safe combination was last changed in March 2000. Failure to change the safe combination increases the risk of misappropriation of funds.</p> <p><i>*The McCoart Revenue Accounting safe combination was subsequently changed in February 2015 due to turnover of one of the safe custodian alternate positions.</i></p> <p><u>Security Cameras</u> There are no security cameras that capture views of the following cash receipt and handling processes: processing mailed payments, safe access, deposit verification, and remittance preparation. The payment collection counters at all Tax Administration locations are equipped with security cameras, but they are positioned with views that monitor only counter activity and are not intended to cover the safe or areas where the remittances are counted and deposits are prepared.</p> <p>Due to the inherent risk associated with cash acceptance and handling, and the high number and dollar amount of cash transactions processed by Tax Administration employees, the department is at a higher risk of fraud or cash theft. Security cameras serve as a deterrent to impropriety and enhance management's ability to monitor cash collection and handling activities.</p> <p>Failure to ensure cash is properly safeguarded may result in theft or loss of County funds.</p>	

Tax Administration - continued

Rating	Issue
High	1. Safeguarding of Funds - continued
Recommendation	
<p><u>Safe Not Accessed Under Dual Control</u> We recommend that the department begin following the Cash Management and Revenue Recognition Policy's "Two Party Rule" when the safe is accessed. If this is not considered feasible, security cameras should be installed to monitor access to the safe. In absence of security cameras, a safe access log should be used to record the details of safe access.</p> <p>In addition, the process of authorizing designated safe custodians should be formalized. Each safe custodian should be approved by the Department Head in writing, and should sign an acknowledgement of their responsibilities and custody duties as the safe custodian. These forms should be kept on file.</p> <p><u>Safe Combinations</u> We recommend that the Sudley location's safe combination be changed as required by the Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5. We also recommend that the division establish documented procedures for compliance, including how often the safe combination is required to be changed, and a record of the date the combination was changed should be maintained on file for documentation and monitoring purposes, as required by the Cash Management and Revenue Recognition Policy, Section 300.1.1. See Issue 5.</p> <p><u>Security Cameras</u> We recommend that the department evaluate the cost and feasibility of installing security cameras to monitor additional areas where cash is collected and handled. While it may not be feasible to install security cameras at all locations where cash is collected, departments with significant cash collection volume, such as Tax Administration / Taxpayer Services, are at an increased risk of theft or other impropriety due to the number and dollar amount of cash transactions, and exposure to the public.</p> <p>The following benefits of security cameras should be considered in this evaluation:</p> <ul style="list-style-type: none"> • Deterrence of theft or "short payments" at the counter; • Deterrence of employee skimming or other internal misappropriation; • Documented visual evidence in case of payment dispute by customer; and • Enhanced protection against outside theft. 	
Management's Response	
<p>Response:</p> <p><u>Safe Not Accessed Under Dual Control</u> Management concurs with best practices for the safeguarding of funds as recommended in the audit report. However, the purpose of Tax Administration Division's exception to the County's Cash Management and Revenue Recognition Policy and Procedure that was submitted to the Director of Finance was that neither dual-control nor camera monitoring is possible at this time because of resource constraints. Currently there is camera monitoring of public areas and general access to work areas that are restricted, which in hindsight was not entirely relevant to the exception request. What should have been stated in the exception request is that there is "monitoring" inasmuch as the safes are located in areas frequently trafficked by staff.</p>	

Tax Administration - continued

Rating	Issue
High	1. Safeguarding of Funds - continued
Management's Response - continued	
<p>Response - continued:</p> <p><u>Safe Not Accessed Under Dual Control</u> - continued</p> <p>As stated, the basis for the exception continues to be the low staffing levels, as was also pointed out in the audit report, that make it impractical to implement such a requirement. The safe custodians, particularly at the McCoart location, are in and out of the safe numerous times each day and for different purposes. To comply would likely mean pulling another employee from assisting their customers, which can be disruptive. If an employee were to need change, the safe custodian would have to have another person with them to get the change from the safe. Oftentimes it does not make business sense for the safe custodian to take the person with them that needs the change. For example, if it were a teller who needs the change, in order to accompany the safe custodian to the safe, they would have to basically undo the entire transaction, give custody of the money back to the taxpayer so that they can leave their workstation, and then start over when they have the correct change. Of course, this scenario makes no practical business sense, therefore, the safe custodian needs to find someone else, which is sometimes easy and sometimes not so easy, but always disruptive to the work at hand. The same situation exists for placing agency deposit bags in the safe – a procedure unique to Tax Administration – which would be inordinately disruptive if one had to find a second person since this process occurs on average 10 to 15 times throughout each day. Often, agency deposits arrive during the core lunch periods because it is a convenient time for the departments/agencies but also happens to be when 50% of Tax Administration Division staff are away from their work stations.</p> <p>Management agrees that the best solution for safeguarding of funds would be cameras – especially if that was a condition under which the exception to the policy was granted. However, the Tax Administration Division security system at McCoart is at its maximum capacity in terms of the number of cameras, so adding cameras to McCoart would require a second full security system or replacement of the entire system. The status of the Sudley and Ferlazzo systems in terms of capacity is unknown. All three systems are approximately ten years old and technology may need to be replaced at some point in the future in any case.</p> <p>The suggested alternative to cameras is a written log. For the same staffing reasons noted above, the Tax Administration Division believes a log is problematic since it requires noting what is both put in the safe and what is taken out, which increases the number of steps and time and implicitly the opportunity for errors, but is also easily forgotten or bypassed. If the point of the log is to denote the staff person and time entered, it could serve to zero in on who might be the cause of a problem or missing item, but only if it is caught before the next log entry.</p> <p>The Cash Management and Revenue Recognition Policy and Procedure were developed to provide guidance across the organization. In a smaller office where cash may come in less frequently, implementation of the dual access procedure or written log may be feasible. However, in a high volume office such as the Tax Administration Division, these controls are better implemented by adding additional security cameras or automating safe access through an electronic keypad with unique access codes that creates an automated log of the activity. However, absent a camera, this control would not record the actual activity within the safe.</p> <p>To address this finding, Tax Administration is working with the Public Works Department to evaluate and price various options for updated security systems at Ferlazzo, Sudley and McCoart and will submit a request for funding consideration during the FY 2017 budget cycle.</p>	

Tax Administration - continued

Rating	Issue
High	1. Safeguarding of Funds - continued
Management's Response - continued	
<p>Response - continued:</p> <p><u>Safe Combinations</u> Management concurs with this recommendation. As noted, the McCoart Revenue Accounting Section safe combination was changed recently. The Sudley safe combination was also changed in May, 2015. Tax Administration Division will also implement a regular schedule of changing the combinations for all safes in accordance with requirements of the Cash Management and Revenue Recognition Policy and Procedure.</p> <p><u>Security Cameras in Cash/Receipt Handling Areas</u> Because of staffing ratios and a peak flow of receipts at due dates, several staff are assigned to handle and process receipts. Staff performs these tasks in addition to other duties which include direct customer assistance, delinquent tax case management, staff supervision, mortgage company processing, etc. During the month of October, approximately 80% of Tax Administration Division staff are assisting with this function. At other times, it is something that is "fit" into other duties. Tax Administration Division has no "stations" which serve this purpose exclusively but to be clear, no cash receipts are done in a back-office area. All customer cash payments are done at a workstation that is monitored with security cameras. The receipt handling process that is performed at a workstation or back office area is exclusively checks.</p> <p>Cash counting and deposit verification and preparation are again handled by several different staff. For security reasons it is not done in areas visible to the public and there are no areas accessible by the public. But, the area where this function is conducted is generally at that responsible employee's workstation. To achieve this recommendation, Tax Administration Division would need to create workspace specific to this function which can be monitored with cameras.</p> <p>Given the space constraints at both Ferlazzo and Sudley this recommendation is not feasible. In order to achieve the desired outcome at McCoart space would need to be reconfigured to create a single larger isolated workspace since multiple persons perform this function. A reconfiguration of this sort would also likely eliminate office space that was set aside for future growth and is outside the scope of the current McCoart retrofit, so new funds would have to be identified within the budget.</p> <p>Tax Administration Division will request funding during the budget process to accomplish this recommendation – which may include additional staff since the decentralized method currently utilized runs contrary to the idea of having one or two persons perform this task in a controlled and monitored environment.</p> <p>Responsible Party: Finance Department, Tax Administration Division Chief</p> <p>Estimated Completion Date:</p> <p>Safe Not Accessed Under Dual Control: TBD pending security system review and funding</p> <p>Safe Combinations: Completed June 2015</p> <p>Security Cameras in Cash/Receipt Handling Areas: TBD pending security system review and funding</p>	

Tax Administration - continued

Rating	Issue
Moderate	2. Segregation of Duties
<p>Effective segregation of duties helps detect errors in a timely manner, deters improper activity and enhances communication among functions. Generally, an individual should not have responsibility for more than one of three transaction components: authorization, custody of assets and recordkeeping/reconciliation. In some cases, less than ideal segregation of duties may be allowed to exist when effective monitoring procedures are in place or the cost of implementing ideal controls exceeds the expected benefits.</p> <p>The duties of cash collection and recording are not properly segregated. The same employees who collect cash at the Taxpayer Services counter are responsible for making adjustments to payments and receivables. This is a violation of the segregation of duties principle and is not in compliance with the Cash Management and Revenue Recognition Policy Section 300.1.2.E minimum requirements for segregation of duties, including that <i>“employees who handle cash shall not be assigned duties for creating invoices or updating accounts receivable records or general ledger records.”</i> The current cash handling duty assignments represent an internal control weakness as one employee could perpetrate and conceal fraud due to their conflicting duties of custody and recording.</p> <p>Tax Administration has implemented compensating controls which prevent employees from performing certain types of adjustments if they also accepted the related payment. Additional compensating controls require that adjustments over \$200 are reviewed by each employee’s supervisor/manager to ensure transaction accuracy and that proper documentation has been received to support the adjustment. Adjustments under \$200 are spot-checked for reasonableness. We were unable to verify that these controls were in place as the performance of these reviews was not documented and retained on file.</p> <p>Adequate segregation of duties helps prevent misappropriation and mishandling of funds and aids in the detection of errors and irregularities.</p>	
Recommendation	
<p>We recommend that Tax Administration segregate duties in accordance with the Cash Management and Revenue Recognition Policy’s minimum requirements for segregation of duties. If it is not feasible to fully separate these duties, the existing compensating controls should be identified and included as required procedures in the department’s cash handling procedures. Examples of compensating controls include: management review of the adjustments report by employee including amounts and reasons, and spot-checking of detail of adjustments under the designated threshold. The performance of these reviews should be documented and support should be retained on file to evidence that the underlying transactions were reviewed.</p>	
Management’s Response	
<p>Response:</p> <p>The creation of the Tax Administration Division (previously called Treasury Management) was the result of a reorganization dating back to the early 1990’s. That reorganization eliminated the divisions managed by the “Treasurer”, “Assessments Coordinator” and “Business Tax Supervisor”, separated real estate assessments into its own division, and combined the remaining functions under a single office. The goal was to improve customer service and efficiency, which the reorganization largely achieved.</p>	

Tax Administration - continued

Rating	Issue
Moderate	2. Segregation of Duties - continued
Management's Response - continued	
<p>Response - continued:</p> <p>The rationale for the reorganization was (1) real estate assessing was a more complicated procedure involving statistical modeling that warranted a separate division and (2) the regulations governing personal property assessment and business tax processing were largely administrative functions dictated by Virginia Code that required vehicle assessments to be administered using outside sources – the same ones used by all Virginia jurisdictions and business tax processing follows a model ordinance published by the Commonwealth in 1987. So the three divisions were consolidated to two, segregating the largest impact area (real estate assessments) from the billing and receipting functions (Note: it is common amongst Virginia jurisdictions that administer an annual reassessment to have a separate real estate assessments office).</p> <p>Before the change, customer service for a taxpayer was fragmented and required the taxpayer to transition back and forth between offices and administrative clerks, the latter of which simply accepted payment and issued the vehicle decal (license) for vehicle tax registrations and payment. The business environment was also quickly moving towards more efficient lockbox processing and online account access and payment portals were starting to take root, so the need for dedicated staff to process payments was lessening. Arguably, the last major process that required significant customer interaction was the vehicle decal, a process that was re-engineered to eliminate lines in 1999 and then eliminated altogether from being issued in 2009-2010.</p> <p>The Tax Administration Division today is much different, perhaps even radically different from what existed before 1993. As a result, the fact that an employee is available to accept a tax payment at all is largely a utilitarian function. Frankly, some taxpayers feel it is necessary to pay in person even though nothing compels them to do so. A taxpayer has the option of paying online or mailing the payment to the lockbox, neither of which require interaction with an employee. There even was a time in 1998 when the branch offices were closed, only to be reopened after a small but determined citizen outcry -- perhaps an idea not quite ready for prime-time in 1998 but more palatable today as people become more comfortable with online account access and payments.</p> <p>The finding in the audit report is really addressing an organization change that was made in 1993 and has been done this way since that time, with no fraud cases, and a very small percentage of errors. In fact, the County's collection rate is over 99% an extremely high rate as compared to other jurisdictions.</p> <p>All this is a precursor to an argument that the 15 staff that work or supervise the taxpayer counters at multiple locations are there to maintain an element of customer service for some segment of the taxpayer population who want this direct face-to-face service as an option. Therefore, the Tax Administration Division makes this service available but the relative risk when considered against the overall organizational structure is rather small. Therefore, from a cost/benefit perspective, Tax Administration Division does not believe the segregation of duties as identified is the best solution. The tax counter employees handle relatively few payments and make relatively few adjustments (though they do make a lot of adjustments that originate from channels other than the walk-in taxpayer). The fact that there are 15 positions is a function of maintaining three separate offices rather than a workload need for 15 direct customer service positions. Frankly, Tax Administration Division would "need" six or seven on most days if we were operating out of a single office (the non-direct customer service time of these staff members is used to accomplish other tasks, like processing renewals, researching exceptions, updating tax records and posting mailed-in payments).</p> <p>A complete segregation of these duties would abdicate the point of the reorganization and reengineering, and would cause Tax Administration Division to abandon in some respects the configuration of the new software now being installed.</p>	

Tax Administration - continued

Rating	Issue
Moderate	2. Segregation of Duties - continued
Management's Response - continued	
<p>Response - continued:</p> <p>In order for the Tax Administration Division to implement full segregation, significant resources would be needed, including a functional reorganization, creating a physical split of the office environments, hiring additional staff and supervisors, and would result in delay of the tax management system replacement project.</p> <p>Management believes we already have effective, meaningful compensating controls in place and believe that the cost to implement additional segregation of duties or additional controls is likely to exceed any gain or benefit. Some of the controls are integrated into the software so the risk of the control being circumvented or skipped is small. To complete an adjustment within the system, the control built within the software is automatically invoked.</p> <p>Also, the adjustments that a teller can make are limited to proration of a personal property tax, and small adjustments to the value of a vehicle with proper evidence (e.g. reduction for high mileage). Tellers are not permitted to make adjustments to business-related taxes (the new software system has more granularity in terms of types of adjustments so while the software does not currently prohibit this type of adjustment, it will in the future), this type of adjustment is funneled to staff who have specific knowledge and are authorized for this purpose. Tellers also cannot make adjustments to a real estate tax – the larger tax for most taxpayers. These adjustments are made only by the Real Estate Assessments Division which means they are completely segregated to another division of Finance.</p> <p>Admittedly, though, the adjustments they make are the more common --proration of personal property being 95% of all adjustments in number -- but are also the smallest in terms of average dollar impact. The fraud that appears in the news and literature most often concerns things like real estate assessment reductions, homestead exemption fraud, income tax fraud, generating fraudulent refunds and under-reporting. The persons handling tax payments are not capable of doing any of these things – again, the biggest impact risk items are eliminated from their permissions.</p> <p>Even so, any type of fraud is problematic but even partial segregation of the most common type of adjustment would require several additional staff to approve each adjustment and would slow down the customer service function. So instead, a manager reviews adjustments after the fact as a compensating control. This allows for a more free-flow of work and eliminates any bottlenecks in customer service. Adjustments that exceed \$200 require documentation. The rest require a system entered note explaining the source of information and are spot checked by the employee's supervisor for reasonableness.</p> <p>The customer of a clerk working at a taxpayer services location is acutely interested in obtaining a receipt, a document, which is part of the official tax record. For the taxpayer, the value of the receipt is evidence of tax compliance and the fulfillment of tax obligations. Thus, there is very little risk of skimming (any adjustment made after a payment creates a refund back to the taxpayer) or posting a payment as short. No option that would allow circumvention of the work steps or data entry requirements of the tax management system is available that would not create an underpayment for a citizen (resulting in collection action) or a refund they were not expecting. In either scenario, the taxpayer would call us and the fraud would be uncovered. For fraud to occur, collusion would likely have to exist.</p> <p>Tax assessments are generated by various tax administrator groups. The assessment process does not involve Tellers or Clerks. All tax records, including assessments, are maintained within the tax management system.</p>	

Tax Administration - continued

Rating	Issue
Moderate	2. Segregation of Duties - continued
Management's Response - continued	
<p>Response - continued:</p> <p>The tax management system is the only method whereby an adjustment can be processed. All work passing through the tax system must follow that software's pre-determined path. No adjustments are done on paper or using an alternate method not captured by the software. One outcome of the adjustment process is a transaction gets recorded which, by default, is automatically retained in the tax system's data base. This data is used to generate reports that are reviewed by the Revenue Accounting Section prior to being record in the County's general ledger. It is Revenue Accounting and not the Clerks who actually record the adjustment. All other records of the adjustment are kept in the tax management system database.</p> <p>As previously stated, supporting documents for adjustments over \$200 are either included or ensured to be electronically available (like a DMV record), and subsequently kept on file and verified by a supervisor/manager.</p> <p>As such, management believes that additional segregation of duties is more costly and disruptive to customer service than the benefits realized since the largest risk areas are already segregated. And management believes the following compensating controls are proper and adequate for the remaining risks:</p> <ul style="list-style-type: none"> • A payment reversal for a cash payment and refunding cash is done only when the original receipt has been surrendered by the taxpayer. Tellers cannot create a reversal of any kind after their batch is closed (the new system has even more granular and robust controls for this function). • Receipts are provided to the taxpayer for all transactions performed at the counter. Receipts are generated only by using the tax management system. It is a work violation to generate a receipt using a stamp, hand written note, or other document that is produced outside of the taxation system. Employees are not allowed to mark a tax bill as "paid" either. • Refunds are sent to the payee only. The teller cannot manipulate a payee in a way that does not appear on the receipt. Refunds under \$500 are spot-checked by an employee in a different functional area within Tax Administration Division. All refunds over \$500 must be approved by either the Revenue Accounting Section head or the Tax Administration Division Chief or designee. • Documentation must be available for adjustments over \$200. All adjustments over this threshold are verified by the supervisor/manager. Adjustments under the threshold are spot checked by a supervisor. Validation reports are generated by the tax management system so adjustments cannot be concealed from an employee's supervisor. • No employee is allowed to make a change to their own tax account. <p>The official tax record is the information contained in the tax management system. Hand written receipts, hand adjusted bills, or bills marked as "PAID" are not allowable evidence of liability or payment.</p> <p>Responsible Party: Finance Department, Tax Administration Division Chief</p> <p>Estimated Completion Date: October 2015</p>	

Tax Administration - continued

Rating	Issue
High	3. Deposit Timeliness
<p>The Tax Administration Division is responsible for verifying remittances, depositing funds, and posting related revenues for most of the County's departments/agencies. The requirement for timely deposit is included in the Cash Management and Revenue Recognition Policy, Section 300.4, which states that all collections and remittances shall be <i>"deposited in the County's bank account, no later than three (3) business days"</i> after receipt. We noted that the Tax Administration Division has received an approved exception to the required three business day timeframe to manage workload and work priorities. The exception to policy states that while reasonable effort will be made to deposit funds within three business days, deposits may be held longer during peak work periods when desired production exceeds staff capacity.</p> <p>We performed testing of a sample of 30 remittances from the three selected departments, noting the following:</p> <ul style="list-style-type: none"> • Library Services: Eight of the ten selected remittances were deposited more than three business days after the date the remittances were received by the Tax Administration Division. They were deposited between four and six business days after receipt by the Tax Administration Division. They were deposited between five and 13 business days after initial receipt by Library Services. • Development Services: Five of the ten selected remittances were deposited more than three business days after the date the remittances were received by the Tax Administration Division. They were deposited between four and six business days after receipt in the Tax Administration Division. They were deposited between seven and eight business days after initial receipt by Development Services. <p>Failure to make timely deposits could result in inaccurate records or misappropriated funds.</p>	
Recommendation	
<p>We recommend that all deposits be made within at least five business days after receipt without exception. This timeframe should be requested as a formal exception to the County-wide policy.</p>	
Management's Response	
<p>Response:</p> <p>Management concurs with this finding. The Cash Management and Revenue Recognition Policy and Procedure are currently being updated based on feedback and experience from the initial implementation period. The policy itself contains a benchmark that Tax Administration Division can rarely realize. The current policy requires departments/agencies to remit deposits to Tax Administration Division within two (2) to three (3) business days. However, it also states that deposits shall be deposited into the County's bank account no later than three (3) business days. If a department/agency takes the full three days for remittance to the Tax Administration Division; there is no built-in processing time for the Tax Administration Division to complete the deposit. The policy will be updated to reflect a five (5) business day rule for deposits to the bank as the audit report recommends.</p> <p>However, even with a five (5) business day rule in place, the Revenue Accounting Section is in need of an additional resource(s). With a staff of only four (4) in this area (since 1999) and with workloads at maximum capacity, it is becoming increasingly difficult to keep up with the County's growth in revenue and the increasing number and types of collections. There is also no resource available to develop training materials and provide needed training to departments/agencies related to cash collections; a function management believes is necessary to standardize processes and reduce the potential for error.</p>	

Tax Administration - continued

Rating	Issue
High	3. Deposit Timeliness – continued
Management’s Response – continued	
<p>Response - continued:</p> <p>It is also worth noting that the audit test samples pulled from Tax Administration Division occurred during an extremely busy week in October when taxes were due and most staff were diverted from their normal duties to assist with the customer service function. Therefore it is plausible to categorize the audit test results as a measure of the system performance during a period of peak-workload for Tax Administration and is not likely representative of the performance throughout the year.</p> <p>Lastly, discussions are taking place as part of the Enterprise Resource Planning (ERP) -- financial management system implementation for consideration of the establishment of a process whereby departments/agencies would be responsible for deposit preparation and initiation of the entry into the accounts receivable sub-ledger. While this is an opportune time for these discussions to take place, the pros and cons of decentralization must be carefully considered. Regardless of the level of centralization/decentralization that may evolve, core staff will be needed to perform reconciliations, train departments/agencies, develop and maintain policies and procedures and audit county-wide compliance. It is estimated that two additional FTEs are needed in order to make any noticeable improvements in this area. At least one additional FTE will be requested as part of the FY 2017 budget process. The preliminary estimated cost for one FTE (grade 12), including salary, benefits, space, training and equipment is approximately \$85,000.</p> <p>Responsible Party: Finance Department, Tax Administration Division Chief</p> <p>Estimated Completion Date: TBD – pending additional resource(s)</p>	

Tax Administration - continued

Rating	Issue
High	4. Posting Delays
<p>The Tax Administration Division is responsible for verifying remittances, depositing funds, and posting related revenues for most of the County's departments/agencies. The requirement for timely posting of revenues is included in the Cash Management and Revenue Recognition Policy, Section 300.4, which states that all collections and remittances <i>"must be accounted for in the proper fiscal month prior to month-end closing."</i></p> <p>We performed testing of a sample of 30 remittances from our selected departments and noted that although the remittances were posted to the general ledger prior to the closing of the month in which they were received, all postings were more than 10 business days (2 weeks) or greater after received.</p> <ul style="list-style-type: none"> • Library Services: All ten of the selected remittances were posted more than two weeks after the date the remittances were received by Tax Administration. They were posted between 12 and 25 business days (2 to 5 weeks) after receipt in the Tax Administration Division. • Development Services: All ten of the selected remittances were posted more than three weeks after the date the remittances were received by Tax Administration. They were posted between 21 and 34 business days (4 to 7 weeks) after receipt in the Tax Administration Division. • Taxpayer Services: All ten of the selected remittances from the Taxpayer Services locations were posted more than two weeks after the date the remittances were received by the revenue accounting team in Tax Administration. They were posted between 12 and 30 business days (2 to 6 weeks) after receipt by the revenue accounting team. <p>The departments rely on information in the general ledger as part of their fiscal duty for planning, decision making and monitoring. If revenues are not posted to the general ledger on a timely basis, the County's official financial reporting system will not reflect the true fiscal status of the various departments/agencies which could result in management or policy decisions being made based on inaccurate information.</p>	
Recommendation	
<p>We recommend that the timeliness of revenue posting be re-evaluated and monitored for areas of improvement of timeliness of posting. As part of the evaluation, a posting performance measure should be no more than 10 business days after receipt and 15 to 20 business days after receipt during high peak times.</p> <p>As the County moves forward with implementation of the new ERP system, we recommend that the feasibility of incorporating electronic posting of revenue batches be explored. Automation of the revenue transaction posting would benefit the County by reducing the time required of Tax Administration employees to perform the manual posting, and increase accuracy by reducing risk of input error.</p>	
Management's Response	
<p>Response:</p> <p>See also management's response to Deposit Timeliness issue. Management concurs with the finding. The foremost priority is to deposit funds into the bank as quickly as possible after receipt from the departments/agencies, meaning the posting work is performed only after deposits are completed; the delay of which is often a function of the lean staffing in Tax Administration Division. Employee absenteeism, such as annual and sick leave, as well as periods of peak customer service demand around tax due dates also hamper the ability for timely deposit and/or posting due to the limited workforce in this area.</p>	

Tax Administration - continued

Rating	Issue
High	4. Posting Delays - continued
<p>Response - continued:</p> <p>Also, by agreement with the impacted department/agency, some posting to the general ledger is intentionally delayed since the subsidiary systems – like Tax Administration Division and Development Services – are maintained in a current state and only a monthly reconciliation and posting is needed to the general ledger.</p> <p>The staff complement of four (4) that perform this work has been at the same level for at least the last 20 years. Thus, it is unlikely that existing staff will ever consistently meet the benchmark due to the growth in County revenues and increasing number and types of collections.</p> <p>Management believes there may be opportunities to decentralize with the ERP system implementation. If the work remains centralized in such a small staff, the bottlenecks are likely to remain even after ERP implementation unless additional staffing resources are added. It is estimated that two additional FTEs are needed in order to make noticeable improvements in this area. Two FTE positions will be requested as part of the FY 2017 Budget Process. The preliminary estimated cost for two FTE positions (grade 12 and grade 15), including salary, benefits, space, training and equipment is \$185,000.</p> <p>Responsible Party: Finance Department, Tax Administration Division Chief</p> <p>Estimated Completion Date: TBD – pending additional resource(s)</p>	

Tax Administration - continued

Rating	Issue
Moderate	5. Documented Cash Collection and Handling Procedures
<p>Formal written procedures over cash collection and handling have not been established as required by the Cash Management and Revenue Recognition Policy. Section 300.1 of the policy states, <i>“Departments and agencies that collect funds on behalf of Prince William County are responsible for ensuring that proper internal control exists. Written procedures must be established for cash handling/collection, recordation, reconciliation and remittances. Department/agency heads are responsible for monitoring compliance with this policy document.”</i></p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	
Recommendation	
<p>We recommend that the department document their current practice for cash collection and handling in formal written procedures as required by the Cash Management and Revenue Recognition Policy, Section 300.1.1. The procedures should include the minimum required topics noted in the Cash Management and Revenue Recognition Policy, listed below:</p> <ul style="list-style-type: none"> • The sources of cash/revenue; • The number of cash collection points; • A list of primary and backup employees authorized to collect and record cash and their related responsibilities; • A summary explaining segregation of duties; • The method of documenting, recording and reporting funds received; • Security procedures in place; • Reconciliation procedures; • Depository/remittance procedures; and • Accounting procedures, including management of accounts receivable (including collection efforts) and returned checks. <p>The procedures should be provided to all employees with cash handling responsibilities and referenced as a training tool for newly hired employees. The procedures should be internally reviewed annually by the respective department/division to ensure they remain up to date and are consistent with the County’s Cash Management and Revenue Recognition Policy.</p>	
Management’s Response	
<p>Response:</p> <p>The Tax Administration Division has a few cash handling procedures in its existing policy guide, but does not have separate documented standard operating procedures (SOPs) as required by the Cash Management and Revenue Recognition Policy and Procedure nor is there material that can serve as the basis for training. As management also responded in Finding 3, the Division does not have a resource available to develop well documented procedures and conduct and attend training. For ideal efficiencies, SOPs and training guides would exist for the various job functions and all customer service functions would have documented standard answers to frequently asked questions. However, given the low staffing levels in this Division, when stacked up against the priorities of collecting revenue, depositing and recording cash and providing customer service, this is a task that has fallen to a lower priority. In addition, Tax Administration Division staff have little to almost zero opportunity to attend any type of internal or external training due to the workload demands required to keep the Tax Administration Division running smoothly.</p>	

Tax Administration - continued

Rating	Issue
Moderate	5. Documented Cash Collection and Handling Procedures – continued
Management’s Response – continued	
<p>Response - continued:</p> <p>Also, the Tax Administration Division is in the process of implementing a new Tax Administration Division system (separate from the ERP), scheduled to go “live” in the spring of 2016. Once this monumental task is complete, the Division would like to address this recommendation. Since the new system will likely alter the way tasks are conducted, from a cost/benefit perspective it makes more sense to wait and document the procedures under the new system. It is management’s belief that an additional one FTE resource will be needed to fulfill these important duties. One FTE position will be requested as part of the FY 2017 Budget Process. The preliminary estimated cost for one FTE positions (grade 15), including salary, benefits, space, training and equipment is \$100,000.</p> <p>Responsible Party: Finance Department, Tax Administration Division Chief</p> <p>Estimated Completion Date: May 2016 – pending an additional resource</p>	

Development Services Department

Development Services Department

Rating	Issue
High	1. Safeguarding of Funds
<p><u>Safe Not Accessed Under Dual Control</u> The County's Cash Management and Revenue Recognition Policy includes a requirement that all departments follow the "Two Party Rule" when placing and removing items in their respective safes. This rule requires that two employees must be present when the safe is accessed. The Cash Management and Revenue Recognition Policy, Section 300.1.2 F.2, states that, <i>"one staff member deposits/removes the item(s) and the other re-counts the amount deposited/withdrawn...Both staff members must initial the log to ensure the protection of all staff members in case of discrepancy. Documentation (e.g. sign-in/sign-out logs) must be maintained to track the name and signature of the individuals accessing the safe, time the safe was operated, and amount deposited or withdrawn."</i></p> <p>During our observations of the cash collection process at Development Services, we observed that the department does not follow the two-party rule and that the department's two safes are routinely accessed by a single employee. Per department management, staffing limitations have prevented the department from implementing a dual access procedure when the safes are accessed.</p> <p>Under the two-party rule, fraud risk is reduced as the two employees involved in a given transaction observe and check each other's actions. Requiring dual custody and access also protects employees as they do not access the safe on their own.</p> <p><u>Safe Combination</u> The Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5, states <i>"Safe combinations shall be changed periodically and whenever staffing changes occur among those that have knowledge of the combination."</i> The Building Development Division safe combination has not been changed since it was purchased 12 years ago. Failure to change the safe combination increases the risk of misappropriation of funds.</p> <p><u>Security Cameras</u> There are no security cameras that capture views of the following cash receipt and handling processes: customer payment collection, mailed payment processing, safe access, deposit verification, and remittance preparation. The building lobby is equipped with security cameras, but they are not positioned to monitor cash collection or handling activity.</p> <p>Due to the inherent risk associated with cash acceptance and handling, and the high number and dollar amount of cash transactions processed by Development Services employees, the department is at a higher risk of fraud or theft of cash.</p> <p>Security cameras serve as a deterrent to impropriety and enhance management's ability to monitor cash collection and handling activities.</p>	

Development Services Department - continued

Rating	Issue
High	1. Safeguarding of Funds - continued
Recommendation	
<p><u>Safe Not Accessed Under Dual Control</u> We recommend that the department begin following the Cash Management and Revenue Recognition Policy's "Two Party Rule" when the safe is accessed. If this is not considered feasible, documentation in the form of a log or security device footage should be in place to record the details of the access.</p> <p><u>Safe Combination</u> We recommend that the safe combination at the Building Development Division be changed as required by the Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5. We also recommend that the department establish documented procedures for compliance, including how often the safe combination is required to be changed, and a record of the date the combination was changed should be maintained on file for documentation and monitoring purposes, as required by the Cash Management and Revenue Recognition Policy, Section 300.1.1. See Issue 7.</p> <p><u>Security Cameras</u> We recommend that the department evaluate the cost and feasibility of installing security cameras to monitor areas where cash is collected and handled. While it may not be feasible to install security cameras at all locations where cash is collected, departments with significant cash collection volume, such as Development Services, are at an increased risk of theft or other impropriety due to the number and dollar amount of cash transactions and exposure to the public.</p> <p>The following benefits of security cameras should be considered in this evaluation:</p> <ul style="list-style-type: none"> • Deterrence of theft or "short payments" at the counter; • Deterrence of employee skimming or other internal misappropriation; • Documented visual evidence in case of payment dispute by customer; and • Enhanced protection against outside theft. 	
Management's Response	
<p>Response: <u>Safe Not Accessed Under Dual Control</u></p> <p>Staffing limitations have prevented and continue to prevent DDS from implementing a "Two Party Rule" when accessing safes. However, as a compensating control, DDS will begin to document when employees access the safe by implementing a "safe access log." At a minimum, the safe access log will record the employee's name, signature or initials, time the safe was accessed and amount deposited or withdrawn. Additionally, the feasibility of implementing security cameras in the safe room to record the details of safe access will be explored.</p> <p>Responsible Party: Administrative Analyst, Construction Services Branch Chief, Bond & Permit Administrator</p> <p>Estimated Completion Date: June 1, 2015</p>	

Development Services Department - continued

Rating	Issue
High	1. Safeguarding of Funds - continued
Management's Response - continued	
<p>Response: <u>Safe Combination</u></p> <p>DDS agrees with the recommendation of changing the safe combination and immediately had the Building Development safe combination changed on 04/10/15. The Land Development safe combination will not be changed in the foreseeable future, as it is less than a year old and no staff who have access to the safe have separated employment in the past year. Going forward, written procedures will be established in the department's fiscal policies and procedures manual to document compliance with Section 300.1.2 F.5. of the Cash Management and Revenue Recognition Policy. These procedures will document how often the safe combination is required to be changed, and a record of the date the combination was changed will be maintained on file for documentation and monitoring purposes.</p> <p>Responsible Party: Administrative Analyst, Construction Services Branch Chief, Bond & Permit Administrator</p> <p>Estimated Completion Date: April 10, 2015 (changed safe combination), Establishing documented procedures in the DDS Fiscal Policies and Procedures Manual by September 1, 2015</p>	
<p>Response: <u>Security Cameras</u></p> <p>DDS supports the concept of implementing security cameras in areas where cash is collected and handled. However, the department will need to evaluate the one-time and ongoing cost and feasibility associated with implementing security cameras.</p> <p>Responsible Party: Director of Development Services, County Building Official, Land Development Division Chief, Administrative Analyst, Construction Services Branch Chief, Bond & Permit Administrator</p> <p>Estimated Completion Date: In conjunction with the Department of Finance, DDS will perform a cost-benefit analysis and identify potential funding strategies, if applicable, by October 1, 2015.</p>	

Development Services Department - continued

Rating	Issue
Moderate	2. Documented Cash Handling Procedures
<p>Formal written procedures over cash collection and handling have not been established as required by the Cash Management and Revenue Recognition Policy, Section 300.1, which states, <i>“Departments and agencies that collect funds on behalf of Prince William County are responsible for ensuring that proper internal control exists. Written procedures must be established for cash handling/collection, recordation, reconciliation and remittances. Department/agency heads are responsible for monitoring compliance with this policy document.”</i></p> <p>While the department has distributed emails, memos and other communication covering cash collection and deposit preparation, the current process has not yet been documented in formal written procedures. The department previously self-identified this as an internal control weakness and is developing a department-level fiscal policy and procedure manual, with expected completion date of June 2015.</p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	
Recommendation	
<p>We recommend that the department document their current practice for cash collection and handling in formal written procedures as required by the Cash Management and Revenue Recognition Policy, Section 300.1.1. The procedures should include the minimum required topics noted in the Cash Management and Revenue Recognition Policy, listed below:</p> <ul style="list-style-type: none"> • The sources of cash/revenue; • The number of cash collection points; • A list of primary and backup employees authorized to collect and record cash and their related responsibilities; • A summary explaining segregation of duties; • The method of documenting, recording and reporting funds received; • Security procedures in place; • Reconciliation procedures; • Depository/remittance procedures; and • Accounting procedures, including management of accounts receivable (including collection efforts) and returned checks. <p>The procedures should be provided to all employees with cash handling responsibilities and referenced as a training tool for newly hired employees. The procedures should be internally reviewed annually by the respective department/division to ensure they remain up to date and are consistent with the County’s Cash Management and Revenue Recognition Policy.</p>	
Management’s Response	
<p>Response: DDS agrees with the recommendation of documenting cash collection and handling procedures in a formal written document. A draft version of the department’s fiscal policies and procedures currently exists, and will be finalized by September 1, 2015. The final policy and procedures manual will address the recommended topics listed above.</p> <p>Responsible Party: Administrative Analyst</p> <p>Estimated Completion Date: September 1, 2015</p>	

Development Services Department - continued

Rating	Issue
Low	3. Remittance Verification
<p>The Cash Management and Revenue Recognition Policy, Section 300.3.1, states that <i>“remittance documents must be signed by the remitter and verified by a second person or an authorized approver. Remittances should be prepared in summary showing the total amount charged to each accounting code. Remittance amounts should be verified by two people (remitter and approver) from the department/agency before forwarding to the Tax Administration Division.”</i></p> <p>We noted that the department’s remittances are verified by only one employee prior to submission to the Tax Administration Division. The full deposit remittance is not verified by a second employee. Per department management, staffing limitations have prevented the department from implementing a count by a second independent employee of the full remittance amount. The individual cash and check batches are verified and signed off by each cashier, but the total daily remittance is only counted and signed for by one employee. The remittance is typically prepared at the end of the day, after many employees have left, or the next business morning, when much of the staff are occupied serving customers. For these reasons, department personnel have determined that it is not operationally feasible to have each remittance counted by a second employee.</p> <p>Failure to properly verify funds remitted for deposit may lead to longer processing times, posting errors, and discrepancies between agency and general ledger records.</p>	
Recommendation	
<p>We recommend that the department perform an independent second count of the daily funds prior to remittance to the Tax Administration Division for deposit as required by the Cash Management and Revenue Recognition Policy, Section 300.3.1.</p>	
Management’s Response	
<p>Response: While the daily remittance (total cash deposit) is only counted and signed by one employee, the individual deposits that make up the collective deposit are signed for by each responsible employee. Additionally, after Tax Administration verifies the daily deposit amounts submitted by DDS, the department’s accountant (Accounting Assistant II) independently verifies the daily deposit paperwork, deposit reports and Tax Administration deposits. Although the full deposit is not verified by a second person on a daily basis prior to it being submitted to Tax Administration, DDS believes adequate compensating controls are in place to verify remitted funds. These compensating controls include a four-way count of each daily deposit (individual cashier, deposit preparer, Tax Administration personnel, and DDS accountant). Given the timing of when deposits are prepared, the amount of time required to perform a “second person verification”, the existing compensating controls in place, and the additional resources required to meet the “second person verification” recommendation, DDS does not believe this task is operationally feasible at this time.</p> <p>On 04/17/15, DDS submitted a formal request (via e-mail) to the Director of Finance requesting an exception from the “two-party” deposit verification process as outlined in the Cash Management and Revenue Recognition Policy. This exception was approved by the Director of Finance on 5/18/15.</p> <p>Responsible Party: Administrative Analyst</p> <p>Estimated Completion Date: Completed, April 17, 2015</p>	

Library Services Department

Library Services Department

Rating	Issue
High	1. Cash Collection and Handling
<p><u>Shared cash drawers</u> We noted the following regarding controls over the cash drawer:</p> <ul style="list-style-type: none"> • Multiple employees work from a shared cash drawer, commingling their cash transactions; • Accountability over cash is not required for shift changes, i.e. cash drawers are not counted when shift changes occur; • Cash drawer reconciliations may not be performed by the respective cash collectors; and • Unique user ID's are not utilized to the POS system and consequently, transactions may not be traced to specific employees based on cash drawer ownership. <p>The County's Cash Management and Revenue Recognition Policy, Section 300.1.2 E.2, states that, "<i>different employees shall not work simultaneously out of the same cash drawer during the same shift.</i>"</p> <p>Lack of individual accountability increases the risk that an error or cash shortage would not be traceable to the responsible employee.</p> <p><u>Identity validation for check payments</u> When a patron pays by check, library employees do not request the patron's driver's license or other state issued identification to validate their identity. This is not consistent with the County's Cash Management and Revenue Recognition Policy, Section 300.1.2 D.1, which requires review of the driver's license or state identification card to validate the identity of each patron paying by check. The department's written cash collection and handling procedures ("Revenue Procedures Manual") do not cover identity verification steps. Proper check acceptance procedures, including identity verification, reduce the risk of loss due to bad checks or fraud.</p>	
Recommendation	
<p><u>Shared cash drawers</u> We recommend the following:</p> <ul style="list-style-type: none"> • Each individual employee be assigned a unique user ID's to the POS (Point-of-Sale) system; • Prohibit the practice of employees working out of the same cash drawer during the same shift; and • Cash drawers be counted and reconciled at the time of a shift change. <p>If management is unable to segregate cash drawers to individual persons during each shift, it is recommended that, at a minimum, unique user IDs be implemented for access to the POS system, and a reconciliation of the individual transactions be performed, at least monthly, by a non-cash collector. Results of the reconciliation, including any variances identified and subsequent explanation or resolution of the variances, should be documented and maintained as support for the performance of the control.</p> <p>In addition, the use of shared cash drawers should be requested as a formal exception to County Policy.</p> <p><u>Identity validation for check payments</u> We recommend that the department comply with the County's Cash Management and Revenue Recognition Policy, Section 300.1.2 D.1. In addition, the department should update their Revenue Procedures Manual to include identity verification steps and communicate to all employees with cash collection duties that driver's license verification is required for payments received by check. See Issue 12.</p>	

Library Services Department

Rating	Issue
High	1. Cash Collection and Handling – continued
Management's Response	
<p>Response:</p> <p><u>Shared cash drawers</u> Currently, full service libraries staff their circulation desk with 2 to 3 assistants every hour the library is open. Limiting access to the cash register to only one staff member would cause an inconvenience and additional wait times for library customers who need to pay fines and fees.</p> <p>A copy of every remittance form, along with its accompanying complete cash register journal tapes, is submitted to Library Financial Management on a daily basis. Every remittance is logged in and reviewed by the appropriate Accounting Assistant, who also verifies that the totals for each line are deposited into the correct Library OCA/OL3 by County Finance. In addition, every time an overage or shortage (one cent or more) occurs, an "Overage/Shortage" form is completed, a copy of the cash register tape and transaction provided, and the overage/shortage reported immediately to Library Financial Management either by phone, fax, or e-mail. Upon receipt of the form and cash register tape, Library Financial Management records the overage/shortage on its deposit log. In addition, each form is reviewed by the Associate Director, Accounting Services Coordinator and assigned Accounting Assistant. The form is filed with the appropriate remittance form for that library. Should a pattern be established at any location, the Library System Director, Assistant Library Director, Branch Administrator, and Circulation Supervisor would be notified, schedules consulted, staff retrained and/or appropriate disciplinary action taken.</p> <p>Current cash registers cannot accommodate the number of individual logins that would be required for staff. In addition, programming costs for each staff member and to accommodate staff changes (vacancies, location changes, etc.) would be prohibitive.</p> <p>However, cash drawer reconciliations will be changed so that reconciliations will be completed by designated Information Services staff and the Administrative Support Assistant. Due to hiring for the two new libraries and the transition of staff to new roles, full implementation is expected by October 1st.</p> <p>Neighborhood libraries are staffed with minimal paid staff and 20 to 30 volunteers per location. Volunteers, under the direct supervision of the staff member, may accept fines and fees at some neighborhood library locations during busy library times; however, reconciliation and verification is handled by staff. Due to staffing limitations, the same staff members that enter the fines and fees into the cash register must perform reconciliation. However, remittance forms are also submitted to Library Financial Management on a weekly basis and overage/shortage forms must also be completed and Financial Management notified according to the instructions outlined above.</p> <p><u>Identify validation for check payments</u> Since library users must provide a library card with a unique barcode or other identification, such as a license, to access their library record, staff at cash collection points interpreted both actions as a validation of the individual's ID.</p> <p>Effective April 20th, staff has been directed that a driver's license or other state issued identification is required to validate the identity of any individual paying by check (see: Library Weekly Announcements attached to the cover e-mail). The Library System's Revenue Manual will be revised to include this step. Completion of the Revenue Manual's revision is expected September 1.</p> <p>Responsible Party: Library System Director; Associate Director for Financial Management</p> <p>Estimated Completion Date: October 1, 2015</p>	

Library Services Department - continued

Rating	Issue
High	2. Segregation of Duties
<p>Effective segregation of duties helps detect errors in a timely manner, deters improper activity, and enhances communication among functions. Generally, an individual should not have responsibility for more than one of three transaction components: authorization, custody of assets and recordkeeping/reconciliation. In some cases, less than ideal segregation of duties may be allowed to exist when effective monitoring procedures are in place or the cost of implementing ideal controls exceeds the expected benefits.</p> <p>The same Library employees who collect cash at the circulation desk are responsible for performing the daily reconciliation and preparation of remittances/invoices. This is a violation of the segregation of duties principle and is not in compliance with the Cash Management and Revenue Recognition Policy Section 300.1.2.E minimum requirements for segregation of duties, including that <i>“employees who handle cash shall not be assigned duties for creating invoices or updating accounts receivable records or general ledger records.”</i></p> <p>The ideal segregation of duties around cash collection is to separate the duties of collection, recording, deposit and reconciliation between three or four separate employees. In environments with insufficient personnel to meet this standard, the minimum level of separation allowable per the Cash Management and Revenue Recognition Policy Section 100.3 is a two-way separation, in which the same employee can perform the tasks of collection, recording and deposit, but an employee who is independent of these tasks performs the reconciliation process.</p> <p>The current cash handling duty assignments represent an internal control weakness as one employee could perpetrate and conceal fraud due to their conflicting duties (custody and recording). Adequate segregation of duties helps prevent misappropriation and mishandling of funds and aids in the detection of errors and irregularities.</p>	
Recommendation	
<p>We recommend that the department implement the two-way separation procedure of having an employee who is independent of the cash collection, recording, and deposit perform the reconciliation, as allowed by Cash Management and Revenue Recognition Policy, Section 100.3.</p>	
Management’s Response	
<p>Response: A two-way separation procedure for cash collection, recording and deposit, is possible at the full service libraries, but is not possible in the neighborhood libraries, due to limited staff. Neighborhood libraries are staffed with minimal paid staff and mostly volunteers. As a result, the Library System will request an exception from the County Policy for these locations.</p> <p>Currently, cross-training of the information staff at the full service libraries has begun, with full implementation expected at the full service libraries by October 1.</p> <p>Responsible Party: Library System Director; Associate Director for Financial Management</p> <p>Estimated Completion Date: October 1, 2015</p>	

Library Services Department - continued

Rating	Issue
Low	3. Safeguarding of Funds
<p><u>Safe Combinations/Locks</u> The Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5, states that “safe combinations shall be changed periodically and whenever staffing changes occur among those that have knowledge of the combination.” Based on our discussions with Library Services administration, we noted that the locks on all but one of the library safes have not been changed since they were installed over 20 years ago.</p> <p>Failure to change the safe combination or safe lock increases the risk of misappropriation of funds.</p>	
Recommendation	
<p><u>Safe Combinations/Locks</u> We recommend that the safe lock at Chinn Park Library be changed and that the department establish documented procedures for compliance, including how often the safe combination is required to be changed, and a record of the date the combination was changed should be maintained on file for documentation and monitoring purposes, as required by the Cash Management and Revenue Recognition Policy, Section 300.1.2 F.5 and 300.1.1. See Issue 12.</p> <p>If the department determines that it is not feasible to rekey safe locks following the County Policy over safe combinations, we recommend that this is requested as a formal exception to the County policy.</p>	
Management’s Response	
<p>Response: All floor safes are bolted to the floor and require two (2) keys to enter the safe. Currently, safe keys are limited to specific staff. Two staff members must be present to access, remove, and record items from the safe. Safe keys are not allowed to remain in an individual’s possession nor are they allowed to leave the building under any circumstances. Due to core drilling costs and staff turnover, keyed locks have not been changed unless a problem occurs. However, once a problem has been identified, the cores are changed, for example the Bull Run Regional Library core lock was changed in FY 2014.</p> <p>Since the Library System has compensating controls for its current key-operated floor safes (including: keys stamped “do not copy”, very limited staff access with door code protection to buildings, and, to date, no problems occurring), and established procedures to replace locks whenever a problem has been identified (such as Bull Run Library in FY 2014) as well as a future plan to replace keyed floor safes with combination safes as safes age and/or begin to experience problems, the Library System will request an exception from County Policy for this practice.</p> <p>As safes need replacement, a new combination safe will be purchased. The two new libraries will receive combination safes bolted to the floor.</p> <p>Responsible Party: Library System Director; Associate Director for Financial Management</p> <p>Estimated Completion Date: TBD</p>	

Library Services Department - continued

Rating	Issue
Low	4. Documented Cash Handling Procedures
<p>The department's documented cash collection and handling procedures ("Revenue Procedures Manual") have been distributed to all the library sites and include detailed steps covering the cash collection, reconciliation, and remittance processes. The department also provides training over cash collection and periodic memo communication with updates to the procedures. The current Revenue Procedures Manual does not cover the following areas required by the Cash Management and Revenue Recognition Policy, Section 300.1.1:</p> <ul style="list-style-type: none"> • Summary explaining segregation of duties; • The number of cash collection points; • List of primary and backup employees authorized to collect and record cash and their related responsibilities; and • Accounting procedures, including management of accounts receivable (including collection efforts) and returned checks. <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	
Recommendation	
<p>We recommend that the department update the current Revenue Procedures Manual to include the following required topics noted in the Cash Management and Revenue Recognition Policy:</p> <ul style="list-style-type: none"> • Summary explaining segregation of duties; • The number of cash collection points; • List of primary and backup employees authorized to collect and record cash and their related responsibilities; and • Accounting procedures, including management of accounts receivable (including collection efforts) and returned checks. <p>The updated procedure manual should be provided to all employees with cash handling responsibilities and referenced as a training tool for newly hired employees. The procedures should be internally reviewed annually by the respective department/division to ensure they remain up to date and are consistent with the County's Cash Management and Revenue Recognition Policy.</p>	
Management's Response	
<p>Response: The intent of the Library System's Revenue Procedures Manual is to provide a systematic approach to the collection of revenue by library branches and neighborhood libraries and serve as a supplement to Prince William County's Cash Management and Revenue Recognition Policy and Procedure.</p> <p>The audit recommendation cited above indicates that the following topics should also be included in the Library System's version: summary explaining segregation of duties, the number of cash collection points, the list of primary and back-up employees authorized to collect and record cash and their related responsibilities; and accounting procedures including management of accounts receivable (including collection efforts) and returned checks. Although these procedures are included in other sources (the County's revenue procedural manual, the Library System's Financial Services Standard Operating Procedures Manual and the Library System's Circulation Policy and Procedures Manual), they will also be incorporated into the Library System's Revenue Procedures Manual. The Library System's Revenue Procedures Manual is currently under revision in anticipation of the opening of two new full service libraries. The procedures will be incorporated by September 1.</p> <p>Responsible Party: Library System Director; Associate Director for Financial Management</p> <p>Estimated Completion Date: September 1, 2015</p>	

County-Level

County-Level

Rating	Issue
High	1. Cash Collection Point Monitoring and Site Reviews
<p><u>Cash Collection Point Monitoring</u> Under the County's Cash Management and Revenue Recognition Policy, Section 300.2, the Finance Department is responsible for maintaining a listing of all cash collection points, all of which must be authorized by the Finance Department before collection operations begin. Cash collection points are authorized through submission and approval of a cash collection point authorization form. As of our testing, finance had confirmation of whether or not a department/agency had collection point(s) for 20 of 34 departments/agencies. We were unable to determine if the remaining 14 departments/agencies have collection points.</p> <p>Failure to properly monitor cash collection points could lead to unidentified internal control weaknesses, increased risk of error or theft, and non-compliance with County policy.</p> <p><u>Cash Collection Point Site Reviews</u> The County's Cash Management and Revenue Recognition Policy, Section 300.1.2, states that cash handling/collection operations must be subject to unannounced Finance Department or Internal Audit review. The policy also states that <i>"only those departments/agencies/divisions or units that can demonstrate the ability to establish appropriate control procedures and comply with prescribed cash handling guidelines will be approved as cash collection points"</i> (Section 300.2). No on-site reviews of cash handling processes have been conducted for any of the County's 47 approved cash collection points. Performance of periodic site visit reviews will help deter and detect fraud and can help the County identify departments where additional training is needed. Site visits should include examination of the following areas:</p> <ul style="list-style-type: none">• Safeguarding of funds;• Physical security of cash handling areas and employees;• Segregation of duties;• Reconciliations;• Remittance preparation and timeliness; and• Monitoring activities. <p>Periodic site visits and review of cash collection sites will enhance oversight and encourage compliance with policy.</p>	

County-Level - continued

Rating	Issue
High	1. Cash Collection Point Monitoring and Site Reviews - continued
Recommendation	
<p><u>Cash Collection Point Monitoring</u> We recommend that cash collection point authorization forms be obtained from all departments/agencies that have not yet submitted them. If a department/agency does not collect cash, the department head should sign a memo stating such, which should be kept on file for documentation purposes.</p> <p><u>Cash Collection Point Site Reviews</u> We recommend the County conduct periodic site visits to review for compliance with County policy and presence of effective internal controls at cash collection points. The sites to be visited should be selected based on an evaluation of each site's cash handling risk. The factors to be considered in evaluating cash handling risk should include:</p> <ul style="list-style-type: none"> • Dollar volume and number of cash receipt transactions; • Adequacy of number of cash handling employees; • Recent turnover; • Previously identified process or control weaknesses; • Frequency of cash errors, or other discrepancies that require follow up by Finance / Tax Administration; • Remittance delays; and • Previously identified process or control weaknesses. 	
Management's Response	
<p>Response:</p> <p><u>Cash Collection Point Monitoring</u> The current Cash Management and Revenue Recognition Policy and Procedure do not have a requirement for departments/agencies that do not collect cash to document this fact in a formal manner. The current policy requires only an affirmative confirmation and does not required negative confirmation. The audit report notes this as a weakness.</p> <p>Management agrees that this is a control weakness and has undertaken tasks to reduce this risk. In the updated draft version of the Cash Management Policy, departments/agencies that do not collect cash will be required to submit in writing a confirmation that they do not accept cash. This will be done on a triennial basis, which is the same time period requirement as the update of the Cash Collection Point Form. This will be monitored by the same staff member within the Finance Reporting and Control Division that monitors the Cash Collection Point Forms. In an effort to be proactive, the Department of Finance has reached out to those departments/agencies to begin collecting the negative confirmations now.</p> <p>Responsible Party: Department of Finance</p> <p>Estimated Completion Date: December 31, 2015</p>	

County-Level - continued

Rating	Issue
High	1. Cash Collection Point Monitoring and Site Reviews - continued
Management's Response - continued	
<u>Cash Collection Point Site Reviews</u>	
<p>The Cash Management and Revenue Recognition Policy and Procedure states that the Department of Finance is responsible for maintaining a listing of all cash collection points authorized by the Director of Finance and cash collection sites must be subject to unannounced Department of Finance review. When this brand new policy and related procedures were put into place, it was a two-phased process: training and follow-up review. The Department of Finance's Financial Reporting and Control (FRC) Division conducted a significant number of staff training events to ensure employees were fully trained and understood the new policy and procedure. The second phase was designed for follow up with Cash Collection Points to ensure that the policy and procedures were functioning as intended and being adhered to by conducting site reviews. However, the FRC Division, who would lead the review, experienced significant employee turnover after the training phase was complete. Due to the loss of several veteran FRC staff members, including the dedicated Senior Internal Control Accountant and the temporary transfer of the Deputy Finance Director who served as chair of the Internal Control Council to Human Resources to serve as the Acting Human Resources Director, the second phase of this policy and procedure implementation was put on hold. A considerable amount of FRC staff time was devoted to the recruitment and hiring process for these vacant positions, on-boarding and training of new staff, and shifting resources to successfully close out the County's books and records for FY 2014, prepare for the annual audit and publish the Comprehensive Annual Financial Report and Popular Annual Financial Report.</p>	
<p>As Fiscal Year 2016 approaches, the Department of Finance is in the process of updating the Cash Management and Revenue Recognition Policy and Procedure. The update is based on feedback and experience from the initial implementation period. The update will result in four separate documents: (1) Cash Management Policy; (2) Cash Management Procedure; (3) Cash Management Best Practices and Mitigating Controls (a non-authoritative document); and (4) Revenue Recognition Policy. To ensure staff at all levels of cash management and handling are aware of the changes from the prior iteration, have a basic understanding of cash management and handling, and an understanding of fraud prevention measures, the Department of Finance will again conduct training for the applicable employee groups. Specifically, it is the intent of the department to target two groups: managers and employees that handle cash. Due to the seasonal nature of some positions, we understand that not all employees that handle cash will be able to attend this training. Thus, the training cannot be mandatory.</p>	
<p>The implementation approach will again, be planned as a two-phased approach. The first will be the training described previously, and the second will be site reviews. It is the intent of the Department of Finance to conduct random reviews at various Cash Collection Points, without interrupting normal business operations. However, the language in the Cash Management Policy will be revised to read, "...cash collection sites may be subject to unannounced Department of Finance and/or Internal Audit review." Staff has not yet been identified for leading the second phase, and as resources continue to be scarce, especially in light of the two major system upgrades currently underway within the Department of Finance, management cannot at this point determine the number of or the frequency of such reviews. Management acknowledges and concurs with the recommended areas for review and will incorporate them into the planning and execution of Phase II. Management acknowledges that there will need to be a risk assessment completed to ensure review of operations with the highest risk. This may come from the dollar value collected, turnover, errors noted in work, delays, by management request, or other conditions which elevate risk. It should also be noted that the dedicated Senior Internal Control Accountant recently resigned, creating a vacancy in this position for the second time in a two year period. The Finance Department is in the process of recruiting for this critical position.</p>	
<p>Responsible Party: Department of Finance</p>	
<p>Estimated Completion Date: Phase I Training: April 30, 2016, Phase II Reviews: Begin May 1, 2016</p>	

County-Level - continued

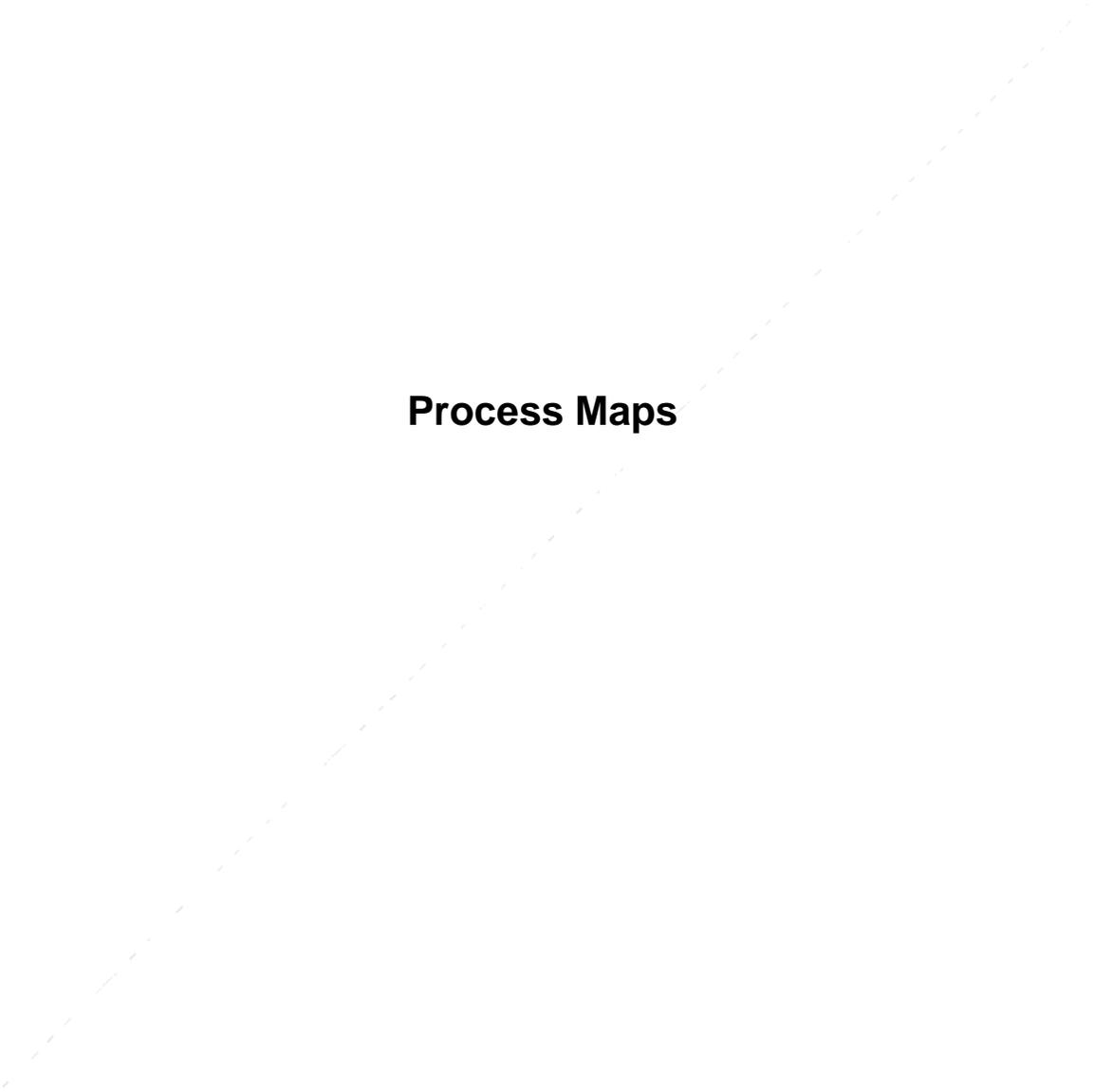
Rating	Issue
Moderate	2. Background Checks
<p>Per Human Resources Department records, background checks were not conducted on 36 of the 104 employees hired into cash handling positions since June 1, 2013. The Cash Management and Revenue Recognition Policy, effective June 1, 2013, requires that background checks be performed on all employees and volunteers who have cash handling responsibilities (Section 300.1.2.H).</p> <p>Background checks help prevent theft or fraud, and are an important step in verifying the integrity and past ethical behavior of candidates for jobs with cash handling responsibilities.</p>	
Recommendation	
<p>We recommend that the County ensure that all potential employees undergo background checks prior to hire for a position with cash handling duties. The job description for positions that handle cash should be updated to include the background check requirement. The County should also consider establishing a threshold of cash handling frequency or amounts in determining which positions will require a background check.</p>	
Management's Response	
<p>Response:</p> <p>The background check requirement will be removed from the updated version of the Cash Management Policy. This requirement has been determined to be best suited to reside within the Personnel Policies and/or the applicable job classification descriptions. Human Resources (HR) will perform an analysis of the classifications of the 36 employees hired into cash handling positions without background checks to identify which classifications may need to be amended to document that the position may require cash handling and a background check. The Human Resources Recruitment Division will also modify their Job Requisition form to ask whether the position requires cash handling responsibilities prior to posting an advertisement. If the answer is "yes", HR will pre-verify that the class specification states the position may require cash handling and a background check prior to advertising. Finally, HR will also invite Department of Finance staff to communicate the best practice of performing background checks on all employees and volunteers that have regular and on-going cash handling responsibilities at the June/July 2015 monthly HR Liaisons meeting attended by countywide staff with responsibility for coordinating recruitment advertisements with Human Resources. Human Resources recommends that when background checks are required they are performed only at time of hire, promotion or transfer since it is the County's practice not to require background checks once someone is hired (with the exception of employees in Tax Administration Division).</p> <p>Responsible Party: Department of Finance, Human Resources Department</p> <p>Estimated Completion Date: June 30, 2016 - pending additional resource(s)</p>	

County-Level - continued

Rating	Issue
Low	3. Cash Management and Revenue Recognition Policy
<p>We reviewed the County's Cash Management and Revenue Recognition Policy and compared it to current and public sector practices, noting the following suggestions for possible improvements:</p> <p><u>Over/short monitoring</u> The current policy does not require that cash discrepancies (overages and shortages) be tracked by employee and monitored on an ongoing basis. The current policy requires only that individual over/short instances are reviewed and documented with explanations. We noted that the three selected departments all had a process in place to record and monitor over/short activity by employee on an ongoing basis. This should also be included as a requirement in the Cash Management and Revenue Recognition Policy to ensure that for each cash collection point and employee, an ongoing record of over/short activity is maintained and reviewed to identify unusual patterns or frequent discrepancies.</p> <p><u>Suspected theft, fraud or other irregularities</u> The current policy does not address procedures to be followed when an employee suspects theft, fraud, embezzlement, irregular activity, or other weaknesses in cash handling procedures. The policy could be enhanced to include a section with guidance on how to handle such situations which would encourage employees to timely report suspected theft or fraud, and flaws in the cash handling process.</p> <p><u>Rotation of duties</u> The current policy does not include periodic rotation of cash handling duties among employees, which can deter and detect fraud. Rotating duties also serves a cross-training function which improves employee knowledge and succession readiness. Further, periodic rotation of duties is a compensating control that would reduce the risk related to ineffectively segregated cash handling functions.</p> <p><u>Surprise cash counts</u> There is no requirement in the Cash Management and Revenue Recognition Policy that the departments/agencies conduct periodic surprise counts of cash drawers, change funds, or other cash on hand. Unannounced cash counts can deter and detect theft or other fraudulent activity. The results of the counts should be documented and monitored on an ongoing basis.</p> <p><u>Certification by cash handling employees</u> All employees with cash handling duties should certify that they have read and understand the requirements of the Cash Management and Revenue Recognition Policy (or department/agency level procedures, if applicable). This will encourage employees to take responsibility for compliance and to understand their role in an effective internal control environment. This requirement should be included in the Cash Management and Revenue Recognition Policy.</p> <p>Documented procedures help reduce the risk of errors and increase consistency in cash collection and handling processes. Clear written procedures also serve as a training tool for new staff and encourage consistent processes in the event of employee turnover or other interruption of normal operations.</p>	
Recommendation	
<p>We recommended that the County consider the above for inclusion in the Cash Management and Revenue Recognition Policy. Once the updated policies and procedures have been approved, we recommend that the County provide training to those involved with cash collection and handling. This initial re-training should be mandatory, with updates on a periodic basis. The periodic training can be attended by employees new to the cash collection and handling process and as a refresher to existing employees. Training attendance should be maintained for each employee that attends to ensure all personnel involved in cash collection and handling complete the necessary training.</p>	

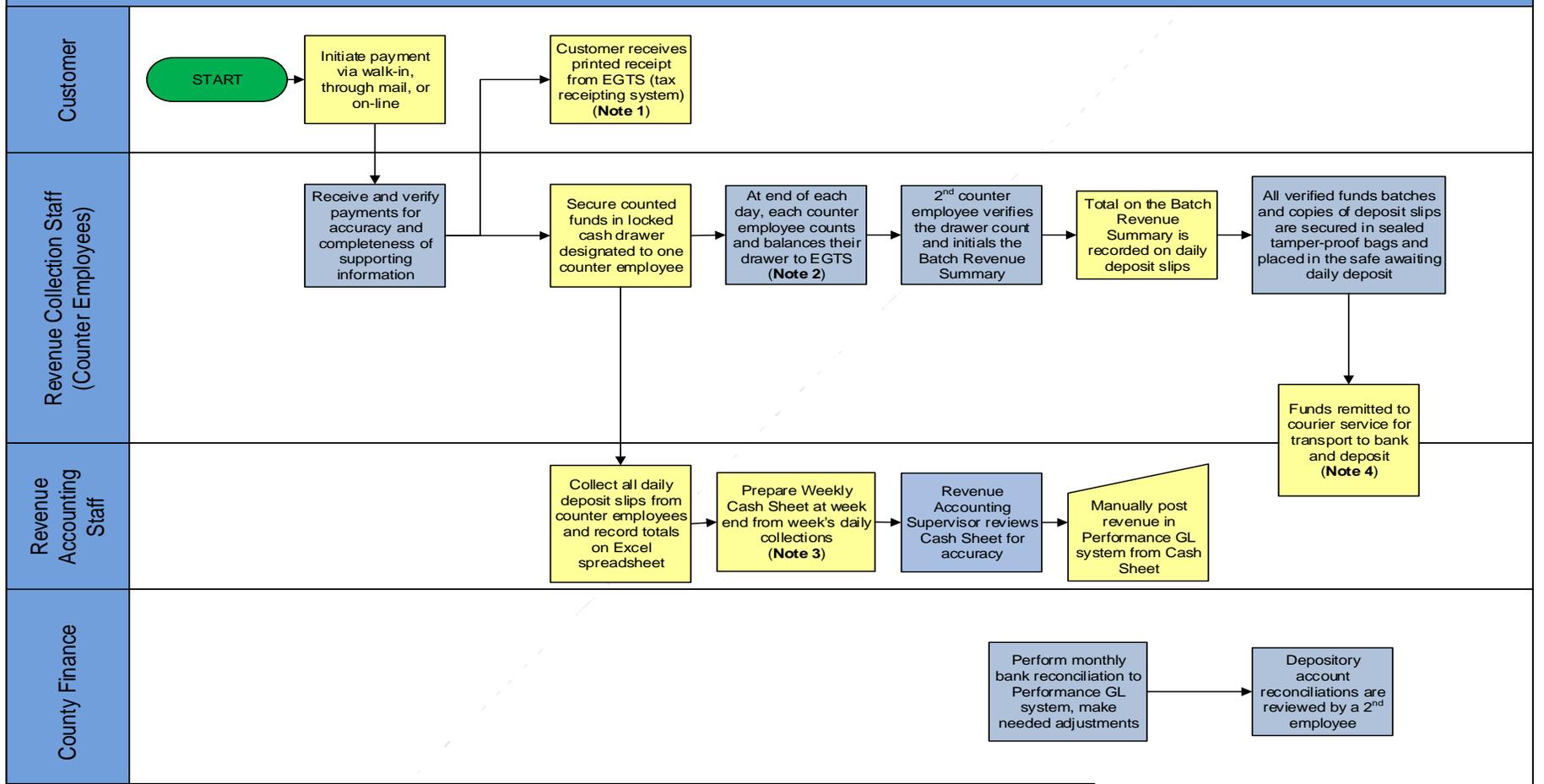
County-Level - continued

Rating	Issue		
Low	3. Cash Management and Revenue Recognition Policy - continued		
Management's Response			
<p>Response: Management concurs with the finding. The audit report identifies several areas within the Cash Management and Revenue Recognition Policy and Procedure that should be included. These items have been incorporated within the revised draft policy and procedures as part of the recent update or in response to these findings. It is important to note that the County does have a separate Fraud and Similar Irregularities Policy and hotline. Employees across the County are exposed to this information through the intranet, newsletters, management discussions, and various other means. The table below provides the sections within the revised policy and/or procedure in which an item is specifically addressed. Please note, this comparison is done using the draft version of the policy and procedure and section numbers may ultimately change. However, it is management's intent to include these items within the spirit they are intended.</p>			
Internal Audit Recommendation	Revised Document That Addresses the Recommendation	Section Number	Draft Wording
Over/Short Monitoring	Cash Management Procedure	200.5	Shortages and overages must include the reason, if known, and require the supervisor's signature. These variances must be accounted for under a separate accounting code and not tied to the revenue received. Management must log all overages/shortages by employee. Employees that are found to make frequent mistakes should be retrained to ensure they are fully aware of the procedure.
Suspected theft, fraud or other irregularities	Cash Management Policy	200.7	Persons who misuse County funds or are not compliant with this policy may be personally responsible for any losses and subject to disciplinary action pursuant to the County's personnel policies. Where questions of impropriety are raised, the Director of Finance or Designee may request Internal Audit and/or the Police Department to investigate and report their findings to the County Executive. If fraud, waste or abuse is suspected, employees are encouraged to call the fraud hotline at 703-792-6884. They may also report this information to a trusted manager, the Director of Finance, or the Deputy Finance Director.
Rotation of Duties	Cash Management Policy	200.8	Departments and agencies that accept cash are encouraged to utilize security cameras. These cameras should be deployed in order to record images in areas where cash is accepted, where cash is stored, and where mail is open. Budgetary constraints may inhibit a department or agency from inputting security cameras. In these instances, mitigating controls must be in place to prevent fraud and errors. These may include management's surprise counts of cash drawers, rotation of duties, and additional management review.
<p>Responsible Party: Finance Department</p> <p>Estimated Completion Date: June 30, 2016 - pending additional resource(s)</p>			

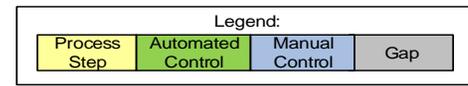


Process Maps

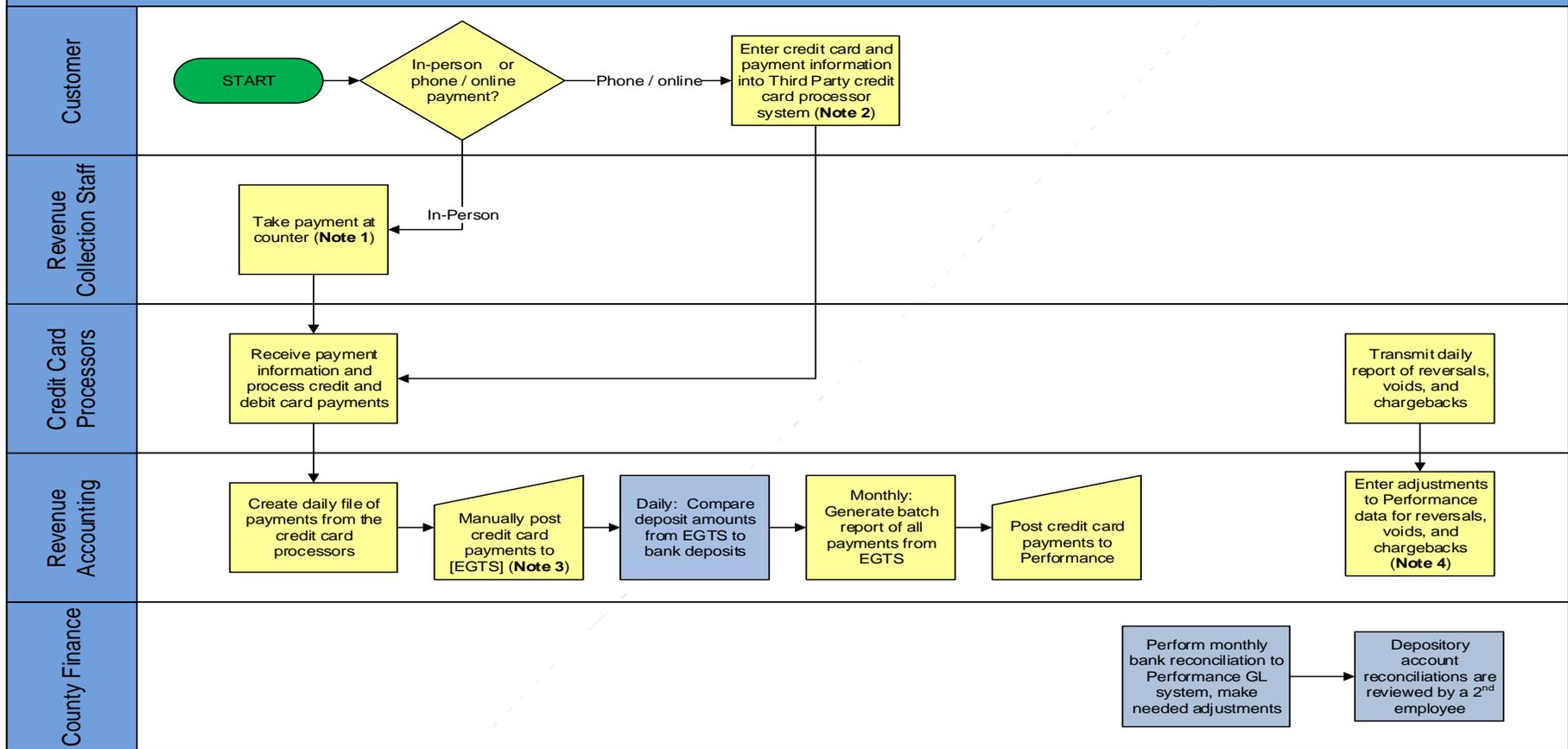
Process Maps



Note 1: Receipts are given for all in-person and online payments, and for mailed payments when requested.
Note 2: EGTS daily report shows collections by type (cash, check, money order, and debit/credit cards).
Note 3: Cash sheet is created in Excel and summarizes by batch number, date, and total of cash or checks. Each batch is listed separately.
Note 4: The Ferlazzo and Sudley locations' deposits are remitted by the Revenue Collection staff at those locations. The McCoart location's deposits are remitted by Revenue Accounting staff.



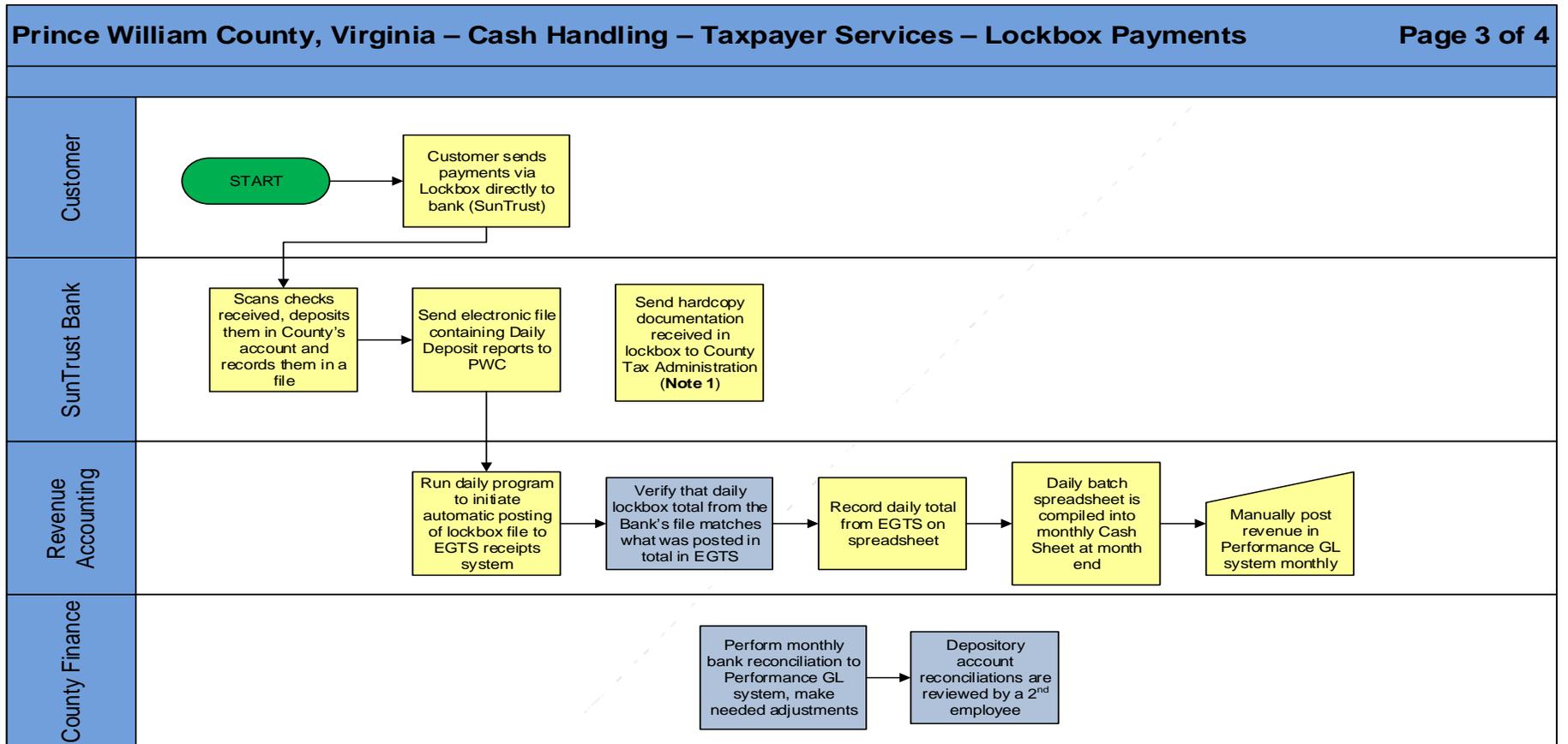
Process Maps - continued



Note 1: Debit cards and Discover credit cards are the only cards accepted for in-person payments.
Note 2: The County's credit card processor is ACI. Customers may pay by VISA, MasterCard, and Discover via the phone or online payments system.
Note 3: To facilitate efficient entry at times of the year with high payment volume, e.g. tax payment due dates, tax payments are posted electronically using a program developed by County IT. Payments are posted manually the rest of the year.
Note 4: These adjustments are entered as net adjustments against incoming payments.



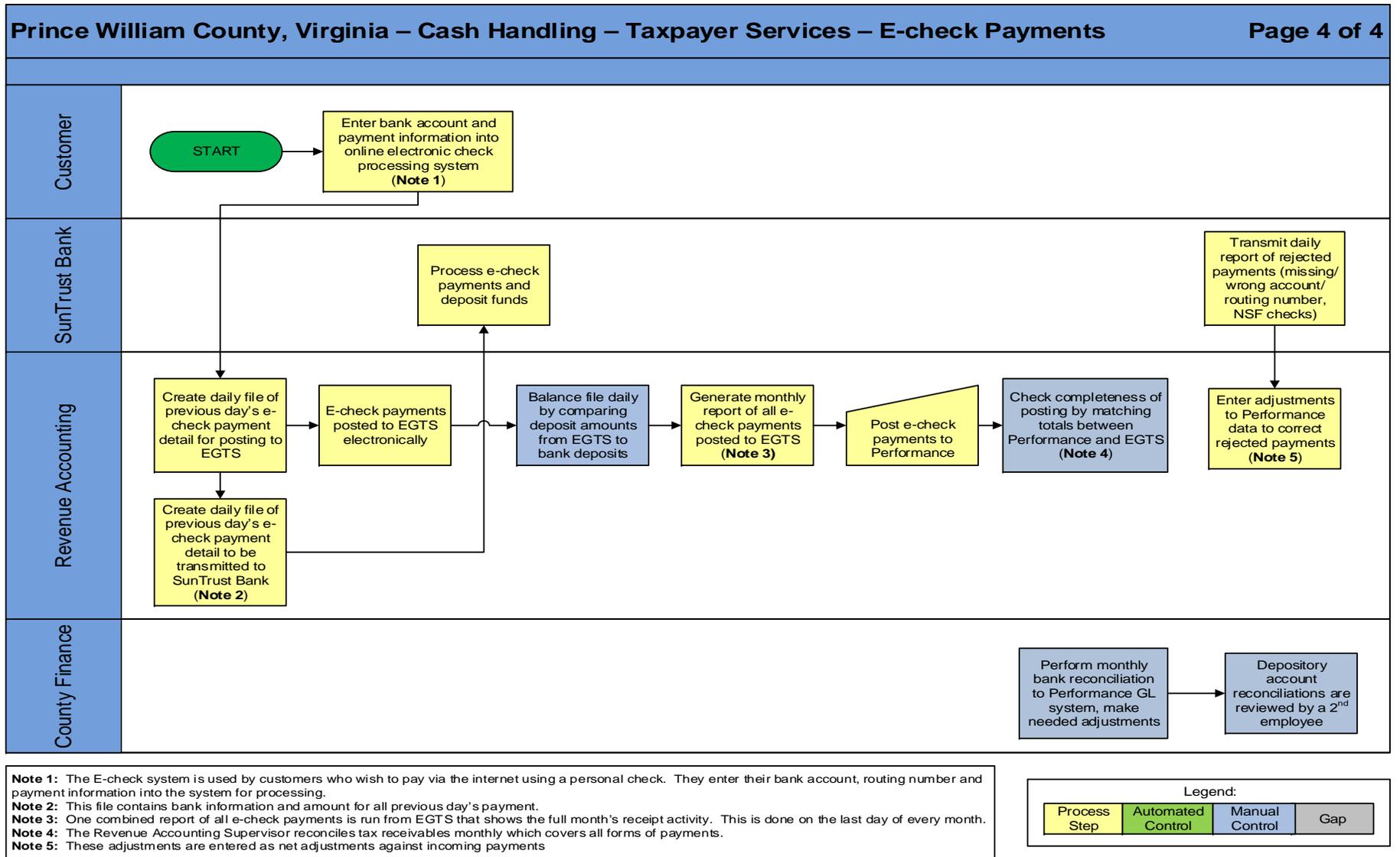
Process Maps - continued



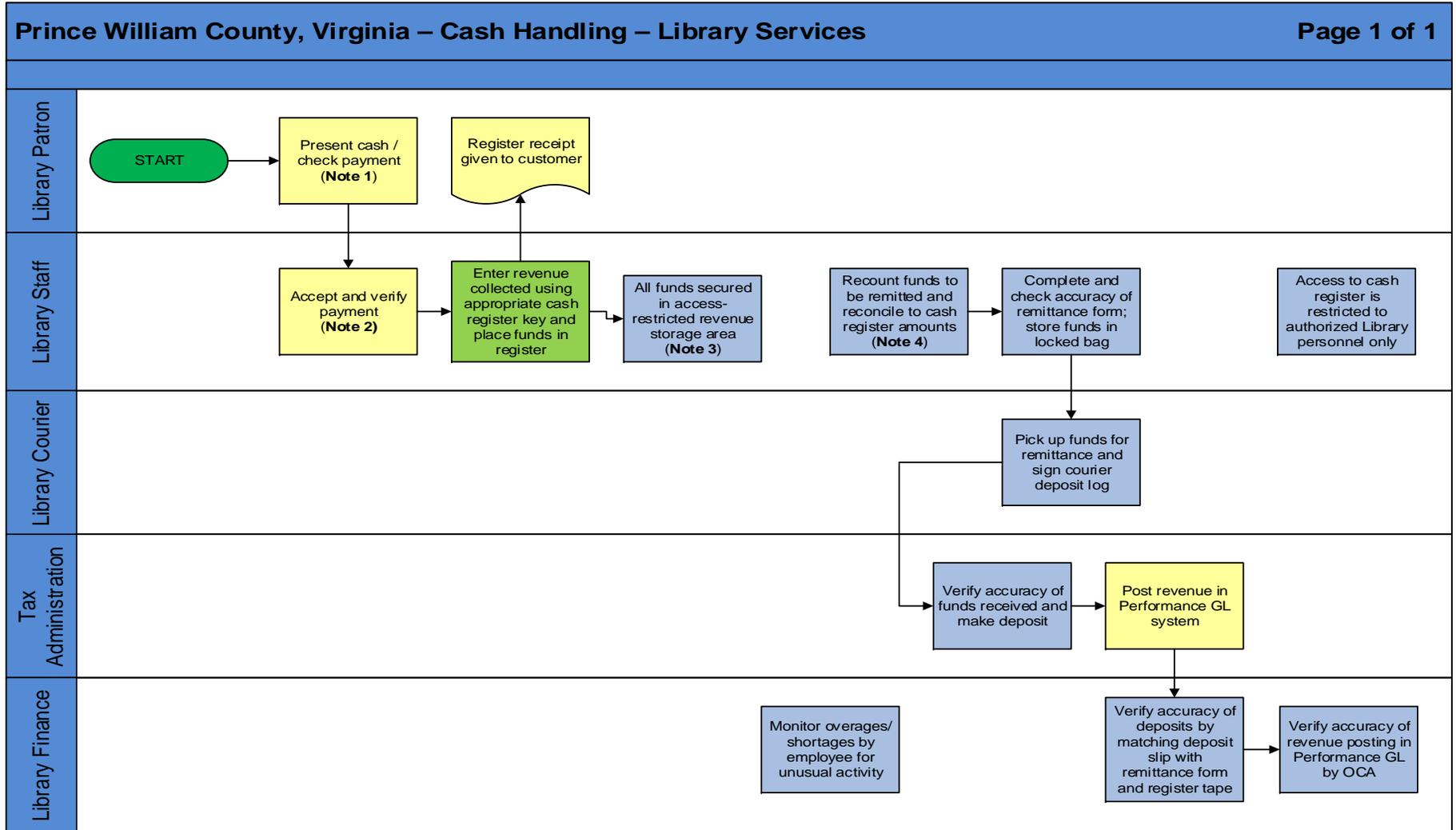
Note 1: The Bank returns all paperwork received with lockbox payments, such as handwritten notes and correspondence items, back to the County after processing lockbox items.



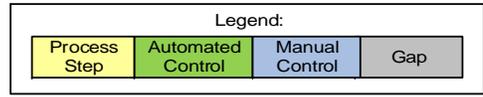
Process Maps - continued



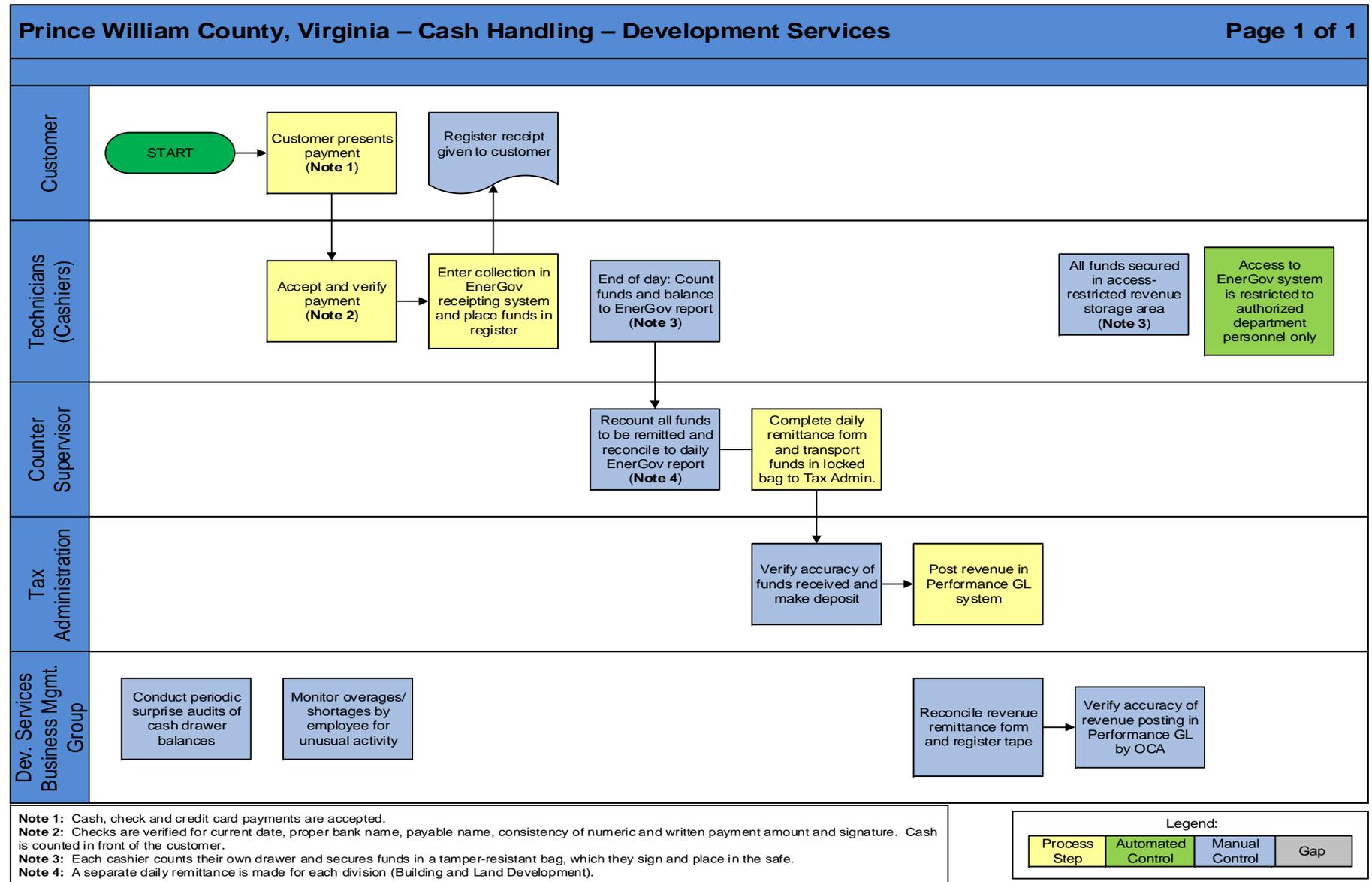
Process Maps - continued



Note 1: Credit and debit card payments are accepted through the Library's SmartPay credit card website.
Note 2: Checks are verified for current date, proper bank name, payable name, consistency of numeric and written payment amount and signature. Cash is counted in front of the customer.
Note 3: The revenue storage area is always accessed by two staff members at a time ("two party rule") and access is recorded on a log.
Note 4: Remittances are made daily by full service libraries. Neighborhood libraries remit funds weekly. All funds are remitted within the fiscal month of collection to ensure timely recording.



Process Maps - continued



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