



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY**

OFFICE OF INTERNAL AUDIT

Professional Audit and Advisory Service

**Audit of the Metro Action Commission
Controls Over Cash Receipts**

Date Issued: July 25, 2008

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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

EXECUTIVE SUMMARY

July 25, 2008

Results in Brief	Recommendations
<p>We performed an audit of the processes and controls in place pertaining to cash receipts at the Metro Action Commission. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none">• Does the Metro Action Commission have policies and procedures in place to ensure that all cash receipts that should be received are being collected? <p>No. Our office observed that the Metro Action Commission lacks a uniform and consistent accounts receivable system for fees collected at the various Before and After Care sites.</p> <ul style="list-style-type: none">• Does the Metro Action Commission have policies and procedures in place to ensure that all cash receipts received are being forwarded to the central accounting office for accurate deposit and entry into the accounting system? <p>Yes. No material weakness, significant issues or control observations were noted.</p> <ul style="list-style-type: none">• Does the Metro Action Commission have policies and procedures in place to ensure that cash receipts are being properly safeguarded? <p>Generally yes. The Metro Action Commission has instituted a number of measures designed to protect and safeguard assets.</p>	<p>Key recommendations of this report for the Metro Action Commission are listed below.</p> <ul style="list-style-type: none">• Develop, implement and monitor a viable accounts receivable system for the Before and After Care fees. The system should include a methodology for monitoring and reconciling anticipated fees with amounts actually received.• Formalize procedures pertaining to the retention of critical source documents. A formal document management plan should be developed and implemented without delay. <p>Additional observations of lesser significance were communicated to the Director of the Metro Action Commission.</p>

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INTRODUCTION

BACKGROUND

The Metro Action Commission (MAC) is a community action agency created in 1964. The primary mission of MAC is to secure and expend federal grants in accordance with regulations regarding the eradication of poverty. To achieve its mission, the MAC operates a wide range of program and services. A sample listing and brief description of these services are explained below:

Head Start: provides disadvantaged preschool children with the basic educational and social skills important for good scholastic performance and transition into the school system. There are seven Head Start facilities in the Nashville area serving approximately 1,485 children.

Food Service: provides free meals, breakfast, lunch and snacks to children enrolled in the Head Start Program.

Before and After Care Program: provides childcare for enrolled children whose parents work schedule begins before or after regular program hours.

Community Services Block Grant: assist with the payment of mortgages, rent, water bills, taxes, medication, phone bills for the homebound and provides classes and assistance to adults seeking a General Education Degree.

The Low Income Home Energy Assistance Program (LIHEAP): program assist with the payment of energy bills for low income families.

The Summer Food Program: provides breakfast and lunches to low income children during the summer months.

The Watt Ads Program: uses discretionary funds from the Nashville Electric Service to assist clients who do not meet LIHEAP guidelines yet are experiencing financial crisis through no fault of their own.

The commission receives donations from local citizens and funding from the Metropolitan Government of Nashville and Davidson County; however, the vast majority of its revenue is obtained from various federal and state grants. In planning this engagement, the Office of Internal Audit concluded that the governance of these grants by the grantors and the inherent high level of oversight reduced the risk of grant related revenue to acceptably low levels. Additionally, the Metropolitan Office of Financial Accountability conducted an extensive review of these grants for fiscal year 2005.

Consequently, our office ascertained that the highest level of risk pertained to non-grant related cash receipts and our audit focused solely in this area. It should also be noted that the Tennessee Department of Human Services (DHS) conducted an audit of the Tom Joy Before and After Care Program for fiscal year 2007 and the LIHEAP funding cycle for the first half of fiscal year

2008. Neither of the DHS reports nor the Office of Financial Accountability report for fiscal year 2005 had significant fiscal audit observations.

According to interviews with management at MAC, the commission devotes approximately .20 full time equivalents to processes and procedures pertaining to the collection and recording of non-grant revenues. Non-grant cash receipts for the fiscal year ending 2007 totaled \$270,716. The sources of these cash receipts are detailed below in Exhibit A.

Exhibit A
Metro Action Commission Cash Receipts FY 2007

Description	Amount	Percent (%)
Education Child Development	\$195,552	72
Low Income Home Energy	57,619	21
Service Coordination	15,463	6
Administrative and Other	<u>2,082</u>	<u>1</u>
Total	<u>\$270,716</u>	<u>100</u>

Source: Metro EBS Accounting System.

The commission is a highly visible entity within the community. The MAC operates programs that directly enhance the quality of life of many citizens in the Davidson County area. If cash receipts are not received, recorded, deposited and accounted for properly, the faith and trust in the commission could be significantly diminished, resulting in a reduction in funding and donations.

PROCESS OVER CASH RECEIPT

The primary source of cash receipts pertains to the collection of program fees from the Before and After Care program (72%). MAC operates seven Before and After Care programs across Nashville and Davidson County. The process for the collection of these fees is outlined below:

- Program fees are collected at the various sites by the site directors and designated employees.
- Each fee collected is recorded on a computer spreadsheet, then verified and signed by the site director.
- On a daily basis, the cash receipts and spreadsheet are forwarded to the central office to be deposited and recorded into the accounting system.
- A designated employee at the central office receives the documentation and agrees the amounts on the spreadsheet to the amount of payments received. This employee then signs off on the spreadsheet signifying that the amounts agree.
- The documentation is then sent to a second employee who prepares a deposit slip.

- A third employee makes the deposit and prepares the general ledger journal entry.
- The MAC CFO and Executive Director review the deposit slip, spreadsheet and proposed journal entry for accuracy before approving the transaction.

For FY 2007, the program fee was \$45 a week for part time participants and \$91 per week for full time participants. Part time participants spend no more than 20 hours per week at a Before & After Care site during the week while full time students spend 20 hours or more per week in the program. Many participants receive full or partial support from the State of Tennessee to help cover this cost. Support is based on pre-established income guidelines.

On a monthly basis, the MAC submits an Enrollment Attendance Verification (EAV) report to the State which details the participant's identifying information, the number of days the participant participated in the program and the amount they have paid. The State reimburses MAC based on this EAV report. Additionally, the State pays a "star quality award" that ranges from \$1 to \$9 per child, per week. The amount is based on the number of stars the respective centers receive throughout the year.

The MAC also receives cash receipts from miscellaneous sources ranging from cash donations from the public to refund checks from the Nashville Electric Service or Nashville Gas. The procedures for handling these receipts are similar to the ones described above with the exception that the amounts are generally received at the central office.

OBJECTIVES AND CONCLUSIONS

Does the MAC have policies and procedures in place to ensure that all cash receipts that should be received are being collected?

No. Our office observed that the MAC lacks a uniform accounts receivable system for fees collections at the various Before and After Care program sites (see Observation A and Observation B).

Are all cash receipts received being forwarded to the central office for accurate deposit and entry into the accounting system?

Yes. No material weakness, significant issues or control observations were noted. The Office of Internal Audit (OIA) obtained a listing of all cash receipts pertaining to non-grant revenue for fiscal year 2007. From this listing, our office selected a sample of 50 cash receipts to be tested. Specifically, our office agreed the amounts on the report to the amounts on the deposit slip, the Before and After Care site payment ledgers, and the amounts recorded into the accounting system. Our office also reviewed documentation showing evidence that each deposit and journal entry had been reviewed and approved by the appropriate parties.

Does the MAC have policies and procedures in place to ensure that cash receipts are being properly safeguarded?

Generally yes. The MAC has instituted a number of measures designed to protect and safeguard assets. They are as follows:

- Segregation of incompatible duties
- A locking safe within the central accounting office
- A new formalized policy, implemented during the audit to replace a previous verbal policy for the protection of assets

Non-withstanding, the OIA did note a single instance on non-adherence to policy during the audit.

OBSERVATIONS AND RECOMMENDATIONS

A – Absence of a Viable Accounts Receivable System for Program Fees

Controls over the management and recording of anticipated receipts of program fees for the Before and After Care program need to be enhanced. Specifically, during the course of fieldwork, the Office of Internal Audit noted that the Metro Action Commission does not utilize a uniform, consistent accounts receivable system for the collection of fees from the various Before and After Care program sites.

The Office of Internal Audit conducted test work at three of the seven Before and After Care programs in the Davidson County area. During this test work, it was noted that each site had its own unique methodology for tracking the payments due from each participant and also the State. One particular site's methodology resulted in information fragmented over several documents and not easily utilized by management for awareness of anticipated and/or past due fees.

Criteria

The Committee of Sponsoring Organizations Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Having a viable accounts receivable system is critical in ensuring an organization has established and designed a strong internal control framework. A viable accounts receivable system enhances the control activities, information and communication, and monitoring components of a strong internal control framework.

Risk

By not utilizing a consistent, uniform accounts receivable system, the MAC diminishes its ability to ascertain and monitor anticipated revenues. Consequently, this enhances the risk of misappropriation of revenues and/or the potential of non-receipt of fees. Specifically, site personnel potentially have greater opportunities to redirect program fees or not require payment from some children in the program.

Recommendation

The MAC should develop, implement and monitor a viable accounts receivable system for Before and After Care program fees. The system should include a methodology for monitoring and reconciling anticipated fees with amounts actually received.

B – Critical Revenue Documentation Support Was Not Available

The MAC was unable to provide sign in sheets for the Before and After Care program for fiscal year 2007. The sign in sheets represent critical source documents for determining the completeness of reported cash receipts. These source documents would enhance and validate the controls in place that help ensure that all payments due the program are actually received. As a result of the missing documents, the OIA was not able to perform test work on the originally planned periods of observation, a limitation on the scope of the audit plan.

Additionally, the OIA was unable to use analytical procedures to reconcile the amounts actually received to expected amounts for fiscal year 2007. This was due to the variation of amounts charged for each child and the sign in sheets not being available (used to determine the expected collection fee). The inability to reconcile the difference between expected and actual revenues for the Before and After Care program represents a potential risk and liability for the MAC, as well as for Metro, and those parties interested and/or directly affected by MAC services and programs.

Criteria

The Committee of Sponsoring Organizations Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Retaining critical source documents for a reasonable period of time is vital in ensuring an organization has established and designed a strong internal control framework. Specifically, retaining vital records enhances the control activities, information and communication, and monitoring components of a strong internal control framework. Related document requirements stipulate a 3-year retention period, a logical basis for the retention needs of these documents.

Risk

By not retaining sign in sheets for a reasonable period of time, the risk for potential revenue losses and/or fraud are enhanced. Sign in sheets can serve as a management tool to ascertain how many participants are participating in the program and if said participants have submitted payments for services provided.

Since we were unable to reconcile the 2007 revenues to earned amounts, the possibility exists that MAC has been over or under paid by the State of Tennessee for fiscal year 2007.

Recommendation

The MAC should formalize procedures pertaining to the retention of all critical source documents. A formal document management plan should be developed and implemented without delay.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from March 2008 to May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2006 through April 15, 2008 financial balances, transactions, and performance on the processes in place during the time of the audit. Initially, the scope of the audit encompassed fiscal year 2007 exclusively. However, lack of access to 2007 sign in sheets constituted a scope limitation and the Office of Internal Audit consequently expanded the audit to cover July 1, 2006 to April 15, 2008.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the MAC administrative office. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the MAC's office were directly observed.

CRITERIA

In conducting this audit, the existing MAC operations and processes over non-grant related cash receipts were evaluated for compliance with:

- Department of Finance Treasury Policy #9
- The Committee of Sponsoring Organizations Internal Control- Integrated Framework

STAFF ACKNOWLEDGEMENT

Carlos Holt, CIA, CFE, CGAP - Audit Manager
Bill Walker, CPA - In Charge Auditor
Tina Kennamore - Staff Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -

KARL. F. DEAN, MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

Cynthia L. Croom
Executive Director

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June 20, 2008

Mark Swann
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222 3rd Avenue North,
Suite 401 Nashville, TN
37201

Dear Mr. Swann,

This letter is to acknowledge receipt of the Audit report entitled, Audit of the Metro Action Commission Controls Over Cash Receipts which was conducted by the Office of Internal Audit.

We have reviewed *the* audit report and are in agreement with its findings. Therefore, we have begun implementation of the recommendations applicable to each finding. This audit will serve as a valuable instrument and management tool in our overall objective to improve the processes and procedures for the collection, monitoring and accounting for before and after care fees.

The professionalism of your staff during this engagement *was* very much appreciated,

Sincerely,

A handwritten signature in blue ink that reads "Cynthia Croom".

Cynthia Croom
Executive Director
Metropolitan Action Commission



The community action agency for Nashville and Davidson County

Community Action changes people's lives, embodies the spirit of hope, improves communities, and makes America a better place to live.
We care about the entire community and are dedicated to helping people help themselves and each other.

**Metro Action Commission
Management Response to Cash Receipts Audit Recommendations
June 2008**

Report Item and Description	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A.1 The Metro Action Commission should develop, implement and monitor a viable accounts receivable system for Before and After Care program fees. The system should include a methodology for monitoring and reconciling anticipated fees with amounts actually received.</p>	<p>Agree. We concur with this finding and are actively researching alternative systems to ensure that all Before and After Care fees are received from each client. Because Before and After Care fees are a very small portion of the MAC budget (2%), we must be careful to weigh the cost associated with implementing an Agency-wide Accounts Receivable system, against the benefits obtained. Currently, MAC is exploring the development of our own Accounts Receivable system using a Microsoft Access database. If this option is determined to be viable, one central database will be created where Before and After Care client fees and payments will be tracked. All Center Managers and the Head Start and MAC administrative offices will have access to database, which will provide readily accessible information on the amount and aging of Accounts Receivable.</p>	<p>CFO and Head Start Director</p>	<p>End of first quarter, fiscal year 2009</p>
<p>B.1 The Metro Action Commission should formalize procedures pertaining to the retention of all critical source documents. A formal document management system should be developed and implemented without delay.</p>	<p>Agree. We concur with this finding. The Metro Action Commission will formally adopt the records management and retention schedule recommended by Metro Records Management, since it does not conflict with the records retention requirements of any MAC grantors. At the conclusion of this audit, the MAC CFO and Accounting Clerk received orientation from Mike Potts, Program Manager - Metro Records Management, on the Metro processes of Records Storage and Destruction. MAC records will be stored at the Metro Records Management site and will be governed by the Metro Records Management General Records Schedule.</p>	<p>All MAC departments</p>	<p>Completed</p>