

**FREDERICK COUNTY, MARYLAND**  
**Receipts Transactions**  
**Frederick, Maryland**

**PERFORMANCE AUDIT REPORT**  
**Risk Assessment and Audit Plan**  
**Phase 1**

**Report #20-04**

**FREDERICK COUNTY, MARYLAND  
RECEIPTS TRANSACTIONS  
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## BACKGROUND

CliftonLarsonAllen LLP (CLA) was engaged by Frederick County, Maryland (the County) to conduct a risk assessment of the cash receipts and collection points of the County. This report aims to provide the results of this risk assessment and the recommended audit plan for the testing portion of the audit.

The fiscal year 2020 budget for the County includes approximately \$800 million in revenue, which consists of the general fund, special revenue funds, and enterprise funds. About 76% of this budget includes taxes collected centrally by the County's Treasury Department. Another large portion, approximately 16% of total revenue, is related to fees and charges mainly associated with the user charges for solid waste, water, and the comprehensive care facilities (e.g., The Citizens Care and Rehabilitation Center and Montevue Assisted Living Facility). The Division of Utilities and Solid Waste Management (DUSWM) and comprehensive care facilities collected those fees. The Treasury Department and various other departments around the County collected the remaining 8% of revenue per the FY 2020 budget.

The breakdown of the FY 2020 budget is as follows:

Taxes	\$ 606,971,450	75.8%
Licenses and fees	5,594,300	0.7%
Federal and state funding	33,037,106	4.1%
Fees and charges	127,219,540	15.9%
Fines and forfeitures	65,500	0.0%
Investment earnings	6,030,099	0.8%
Miscellaneous	21,734,164	2.7%
Total	<u>\$ 800,652,159</u>	

## OBJECTIVE, SCOPE AND METHODOLOGY

We conducted this performance planning survey and risk assessment in accordance with Generally Accepted Government Auditing Standards (GAGAS) established by the U.S. Government Accountability Office (GAO). Because of the inherent limitations, a risk assessment made for our review's limited purposes would not necessarily disclose all weaknesses related to the County's compliance.

The objective of this audit are as follows:

- Gain an understanding of the policies and procedures related to County cash receipts and collection points.
- Evaluate risk and internal controls related to cash receipts and collection points.
- Identify specific testing plan objectives to address the high-risk areas.

As part of the risk assessment phase of the audit, we:

- Interviewed staff from the finance and treasury departments to determine all known points of cash receipts throughout the County. We also utilized the information previously gathered by the Director of Internal Audit based on interviews with County departments applicable to this engagement.
- Conducted individual meetings based on information provided by finance, treasury, and the Director of Internal Audit with the following departments to gain a better understanding of their receipting activities, processes, controls:
  - Treasury
  - Utilities and Solid Waste Management
  - Sherriff's Office
  - Liquor Board
  - Parks and Recreation
  - Fire and Rescue
  - Planning and Permitting
  - Library
- Reviewed revenue budgets for each department to identify fees and other sources of revenue.
- Obtained a listing of bank accounts and reviewed bank statements for the months of June 2019 and December 2019. For those two months, we traced selected deposits to supporting documentation to identify receipt activities.
- Created an inventory listing of receipting activities and revenue collection points.
- Performed a risk assessment based on several factors such as the Treasury Department's involvement, physical cash, receipt volume, multiple locations, internal control policies, dollars collected, and routine audits.

The Frederick County Public Library was included in this report's scope, even though they are a component unit (e.g.; not part of the primary government), since they do not receive a separate external financial audit, and there have been no recent performance or other audits conducted over the library.

The scope of this report did not include the Citizens Care and Rehabilitation Center and Montevue Assisted Living Facility as a third party manages the billing and collections processes, and they had an audit recently. Additionally, the Bell Court was not included in this report's scope since a separate audit is performed annually following the U.S. Department of Housing and Urban Development (HUD) guidelines.

County budget	\$ 800,652,159
Less: Comprehensive care facilities	(28,025,271)
Less: Bell Court	(129,690)
Plus: Public library*	5,145,604
Total revenue within scope of audit	<u>\$ 777,642,802</u>

\*excludes transfers from county government

## RISK ASSESSMENT ANALYSIS

We took seven factors into account when completing the risk assessment of the departments within the County. These factors include:

1. *Lack of Treasury involvement* – Treasury is responsible for cash management within the County; therefore, they have robust processes and procedures in place for cash receipts. Those departments that do not remit their cash to Treasury for processing and depositing are considered higher risk.
2. *Physical cash* – Departments with a high volume of physical cash are considered higher risk than those that utilize online and credit card payments.
3. *Volume* – Departments that have a high volume of cash receipts collected are considered higher risk than those with minimal cash receipt volume.
4. *Multiple locations* – Departments that collect cash at more than one location across the County and remit it back to a central department office are considered higher risk.
5. *Internal control policies* – As part of this survey, we understood the internal controls within departments. Those departments without proper internal controls or segregation of duties are considered higher risk.
6. *Dollars collected* – Departments that collect large sums of money are considered higher risk than those departments whose dollar value of cash is minimal.
7. *Route audit* – The Internal Audit Department has performed various audits throughout the County over the past few years. Those departments that had a recent audit are considered lower risk than those that have never received an internal audit. Generally, we did not consider the external audit performed by an independent audit firm, as the scope of an external audit is typically not as in-depth as an internal audit.

Refer to *Appendix A* for the Risk Assessment.

### High-Risk Departments

**Parks and Recreation** – The department oversees the County's parks, natural resources, facilities, and recreational activities and programs. Primary revenue sources include registration fees for programs and the use of facilities. These fees can be paid at several locations by cash, check, or credit card. Specific locations only accept cash or check. Additionally, the department accepts online payments for registration fees. The department takes money to Treasury on certain days of the week. They have not been subject to an internal audit in recent years.

**Frederick County Public Library** – While the Library is a component unit of the County, it does not receive a separate audit for year-end financial reporting purposes; however, it is considered more of a department in the year-end audit. Primary revenue sources include fines, fees, donations, and state/county funds. They have nine locations throughout the County, with some branches remitting their money to the central office, which remits to Treasury. In contrast, other branches make deposits directly to the bank in their town. All locations accept cash, check, and credit card. They have not been subject to an internal audit in recent years.

**Division of Utilities and Solid Waste Management (DUSWM) - Landfill Only** – Landfill operations were broken out separately for the purposes of this risk assessment as processes and procedures differ from the main office operations of DUSWM. The main source of revenue is fees for waste disposal. Cash, checks, and credit cards are accepted. Deposits are taken directly to the bank. They have not been subject to an internal audit in recent years.

**Treasury** – Treasury receives the majority of the revenue in terms of dollars for the County. Primary revenue sources include taxes, water/sewer payments, planning and permitting fees, federal and state funds, and transit tickets. They handle physical cash at their teller windows and a high volume of receipts. They have not been subject to an internal audit in recent years.

### **Moderate-Risk Department**

**Senior Services** - The department collects funds for bus trips, pay-as-you-go classes, and federal/state funding. The amount and volume of cash collected are considered moderate. They do not utilize Treasury for banking and depositing, and they have not been subject to a recent internal audit.

**Transit** – The department provides public transit within the County. Funds collected are for passenger rides. The transit bus driver collects funds on any transit bus. They have a highly-used mobile application that reduces the number of coins (fares) collected onsite. Even though multiple sites (e.g., transit buses) collect cash, the total amount of money collected is minimal. They have not been subject to an internal audit in recent years.

**Animal Control** – The department collects donations, licenses, and adoption fees for animals. Deposits are taken directly to the bank; therefore, there is no Treasury involvement. The department allows online payment for donations, but all other cash receipts are via cash or check. The volume and dollar amount of transactions is considered low. They have not been subject to an internal audit in recent years.

**Division of Utilities and Solid Waste Management (DUSWM) – Main Offices** – The primary source of revenue for DUSWM is water and sewer payments collected by the Treasury. They receive cash receipts from a few other sources at their administrative offices, such as capacity fees, development review fees, and monthly billing of bulk water. Auditors performed an internal audit recently over the water and sewer utility payments.

**Sheriff's Office** – The Sheriff's Office collects fees associated with incident and accident reports, fingerprinting, and courthouse fees. The Sheriff's Office collects fees for fingerprinting by cash or check. The majority of court payments are by check. The remaining funds collected by the Sheriff's Office outside of the courthouse are minimal. They do not use Treasury for banking or depositing. The Internal Audit Department recently performed an audit over the courthouse fee collections with no significant findings.

**Office of Economic Development** – The department collects fees for events and sponsorships. Risk is moderate due to the low transaction volume and physical cash collected. They accept checks and credit cards for most events and sponsorships. They do not utilize the Treasury for banking functions and have been subject to internal audits in recent years.

## **Low-Risk Departments**

We consider the following departments low-risk because they mainly utilize the Treasury for depositing, accept little to no cash, the volume and dollar amount of cash collected is minimal, and have adequate internal control policies given the size and nature of their department.

- Liquor Board
- Planning and Permits
- Fire and Rescue
- Health Department
- Elections Board
- Citizens Services
- Emergency Management
- Interagency Information Technologies

## **SUMMARY OF RECOMMENDED AUDIT PLAN**

The departments with a risk assessment rating 15 or higher are considered high-risk, and we propose performing a test of transactions of cash receipts using a sample size of 40 for each department. These departments include Parks and Recreation, Frederick County Public Library, Division of Utilities and Solid Waste Management (Landfill), and Treasury.

The departments with a risk assessment of either 13 or 14 are considered a moderate-risk, and we propose performing a test of transactions of cash receipts using a sample size of 10 for each department. These departments include Senior Services, Animal Control, Transit, Division of Utilities and Solid Waste Management (Main Office), Sheriff's Office, and Office of Economic Development.

For the above departments classified as either high-risk or moderate-risk, we propose the following procedures:

- Walkthrough of the cash receipt process for each department;
- Test of transactions, which include:
  - Ensuring adequate segregation of duties,
  - Transactions are appropriately supported and recorded in the general ledger,
  - Cash and check deposits were made timely,
  - For those departments that utilize Treasury, ensuring the department verified cash was deposited and appropriately recorded.

The remaining departments with a risk assessment score of 12 or less are considered low-risk. There would be no test of transactions of cash receipts for these departments, which include Liquor Board, Planning and Permits, Fire and Rescue, Health, Elections Board, Citizen Services, Emergency Management, and Interagency Information Technologies.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
August 26, 2020

## APPENDIX A – RISK ASSESSMENT

<b>Risk Factors</b>
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Department	Revenue Sources	Lack of Treasury Involvement	Physical Cash	Volume	Multiple locations	Adequate internal control policies	Dollars collected	Routine audits	Rating
Parks and Recreation	Registration for programs, use of facilities	2	3	2	3	2	2	3	17
Library	Fines, fees, donations, state & county funds	2	2	2	3	1	2	3	15
DUSWM Landfill	Landfill fees	2	3	2	1	2	2	3	15
Treasury	Taxes, water/sewer pmts, planning & permitting pmts, transit tickets, State of MD payments, other grant pmts, etc.	1	3	3	1	1	3	3	15
Senior Services	Bus trips, pay as you go classes	3	2	2	2	1	1	3	14
Transit	Passenger fares	2	2	1	3	2	1	3	14
Animal Control	Donations, licenses, adoption fees	3	2	1	1	2	1	3	13
DUSWM Main Offices	Water, sewer fees	2	2	3	1	1	3	1	13
Sheriff's Office	Fees associated with incidents, accidents, fingerprinting, courthouse	3	2	2	2	1	1	2	13
Office of Economic Development	Events and sponsorships	3	1	1	2	2	1	3	13
Liquor Board	Fees associated with licensing & violations	2	2	1	1	2	1	3	12
Planning and Permits	Various permits & applications	1	1	3	1	1	2	3	12
Fire and Rescue	Ambulance billing, annual subscriptions	3	1	2	1	1	2	1	11
Health Department	State funding	1	1	2	1	1	2	3	11
Elections Board	Candidate filing fees	1	1	1	1	1	1	3	9
Citizen Services	State funding	1	1	1	1	1	1	3	9
Emergency Management	Tower rentals, MD 911 receipts	1	1	1	1	1	1	3	9
Information Technologies	Replacement badges	1	1	1	1	1	1	3	9

Legend

- 3 – high-risk
- 2 – moderate-risk
- 1 – low-risk