

FREDERICK COUNTY, MARYLAND
Receipts Transactions
Frederick, Maryland

PERFORMANCE AUDIT REPORT
Testing and Results
Phase II
Report #20-04



WEALTH ADVISORY | OUTSOURCING
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RECEIPTS TRANSACTIONS
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INDEPENDENT AUDITORS' REPORT AND EXECUTIVE SUMMARY

Interagency Internal Audit Authority
Frederick County, Maryland

CliftonLarsonAllen LLP (CLA) was engaged by Frederick County, Maryland (the County) to conduct a performance audit of the County's cash receipts. The purpose of this report is to provide observations and recommendations, if any, identified during this audit. Our audit scope covered the period of July 1, 2019 through June 30, 2020. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States.

The performance audit was executed in two phases. In phase I of the audit, CLA conducted a risk assessment of the cash receipts and collection points of the County in 2020 which included gaining an understanding of the policies and procedures related to County cash receipts and collection points, evaluating the risk and internal controls related to cash receipts and collection points and identifying a specific testing plan to address high risk areas. CLA's report, dated August 26, 2020, on phase I describes the risk assessment analysis and summary recommended audit plan. Refer to Appendix A for this risk assessment.

Phase II of the audit is covered by this report. In phase II, CLA performed detailed testing of cash receipts, using a sample of 40 for four high risk departments, which included, Parks and Recreation, Frederick County Public Library, Division of Solid Waste and Recycling, and Treasury. In addition, CLA performed detailed testing of cash receipts, using a sample of 10 for six moderate risk departments, which included Senior Services, Animal Control, Transit, Division of Water and Sewer Utilities, Sheriff's Office and Office of Economic Development.


During our review the transactions selected for testing, we verified controls were in place to ensure cash was safeguarded, receipts were properly posted to the general ledger, Infor and duties were properly segregated within each department and within Treasury. In addition, we also noted that proper supporting documentation was maintained to ensure transactions were correctly recorded to the general ledger. Lastly, cash and checks were timely deposited at the bank throughout the audit period.

We did not identify any exceptions in our testing or deficiencies in internal controls. However, we did identify matters that are opportunities to strengthen internal control and improve operations.

A summary of observations are as follows:

Observation #	Area	Observation
1	General Ledger System Limitations	The General Ledger system (Infor) does not allow a user to easily trace a single transaction through to subsystems due to batched entries and varying cash receipt processes amongst Departments.
2	Policies & Procedures Over Maintenance of Supporting Documentation	There was inconsistent treatment among departments for maintaining and organizing supporting documentation.

The responses from the County's Finance Division and County's Treasury Department are included after each observation in the observations, recommendations, and management's responses section.



CliftonLarsonAllen LLP

Baltimore, Maryland
March 16, 2022

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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 (phase I). Our report dated August 26, 2020 provided the results of this risk assessment and the recommended audit plan for testing phase of the audit. This report provides the results of the testing phase of the audit (phase II) and recommendations for improvement.

Refer to *Appendix A* for the Risk Assessment.

High-Risk Divisions/Departments

- Parks and Recreation
- Frederick County Public Library
- Division of Solid Waste and Recycling
- Treasury

Moderate-Risk Divisions/Departments

- Senior Services
- Transit
- Animal Control
- Division of Water and Sewer Utilities
- Sheriff's Office
- Office of Economic Development

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 Solid Waste and Recycling, Division of Water and Sewer Utilities, 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>	

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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

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OBJECTIVES, SCOPE AND METHODOLOGY

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

The objectives of the audit are as follows:

1. Gain an understanding of the policies and procedures related to County cash receipts and collection points.
2. Evaluate risk and internal controls related to cash receipts and collection points.
3. Identify specific testing plan objectives to address the high-risk areas.
4. Perform detail testing of transactions for the high-risk and moderate-risk departments within the County for the audit period July 1, 2019 through June 30, 2020.

Objectives one through three were performed during the risk assessment phase (phase I), and CLA issued our report on the results of those objectives, along with our risk assessment, on August 26, 2020. This report details our results and observations associated with objective four, which is the testing phase (phase II).

As part of the testing phase of the audit, we:

- Obtained a complete population of cash receipts from the General Ledger system (Infor).
- Tested a sample of 40 cash receipt transactions for each high-risk departments identified in phase I. These departments included Parks and Recreation, Frederick County Public Library, Division of Solid Waste and Recycling, and Treasury.
- Tested a sample of 10 cash receipt transactions for each moderate-risk departments identified in phase I. These departments included Senior Services, Animal Control, Transit, Division of Water and Sewer Utilities, Sherriff's Office, and Office of Economic Development.

Specifically, for all cash receipt transaction testing, we ensured that:

- There were adequate segregation of duties present in the review & approval process,
- Transactions were appropriately supported and recorded in the general ledger,
- Transactions were appropriately coded to the general ledger accounts, and
- Cash and check deposits were made timely.

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OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT’S RESPONSES

We identified several areas where current policies and procedures and internal controls could be improved. These items are discussed below and include our observations and recommendations, together with management’s responses to our observations.

A. General Ledger System Limitations

Observation #1:

The County utilizes subsystems as the source of record for cash receipt transactions due to limitations within the general ledger system, Infor. The majority of cash receipt transactions are recorded in Munis, such as taxes and water and sewer payments, which is interfaced daily with Infor and as a result, is recorded at a batch level in Infor. However, certain departments utilize subsystems which are not capable of interfacing with Infor. For example, the Parks and Recreation department uses ActiveNet, a registration and payment system for the department’s activities and Senior Services utilizes spreadsheets. Therefore, cash receipts are recorded in Infor via journal entry and daily bank reconciliations are performed to ensure all activity is properly captured. Lack of subsystem interface with Infor creates a more manual process for the Accounting department. Additionally, in certain instances, supporting documentation was decentralized and maintained at the department level based on level of detail warehoused in subsystems.

We recognize that having a general ledger system that maintains high level financial records that does not provide detailed transactional information is not ideal; however, the County has implemented internal controls and processes to ensure cash receipts are property recorded in the general ledger system. We are also aware that any changes to the current situation would most likely be at a significant cost to the County.

Management’s Response:

Management is aware of the integration limitations that currently exist between Infor (where the general ledger exists) and the various subsystems utilized across County agencies to process cash receipt transactions. During the implementation of Infor, various modules were tested but determined they were either less efficient than our current process or the modules were not sufficient for an agency’s needs or non-existent altogether in Infor. Should a new subsystem be required by a County agency, the County will evaluate options that interfere with Infor so that it will have an opportunity to reconcile to the general ledger in a more streamlined manner.

B. Policies & Procedures Over Maintenance of Supporting Documentation

Observation #2:

During our test of cash receipts, we noted that there was inconsistent treatment among departments for maintaining and organizing supporting documentation. Support was either scanned into the County’s electronic systems, sent to Treasury/Cash Management for maintenance, or maintained as hard copies filed on-site at the Departments.

Each department has its own policies and procedures for collecting, tracking, submitting, and depositing cash receipts. This results in various forms of supporting documentation for each type of cash receipt.

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Additionally, certain types of cash receipts (online payments, direct deposits, ACH's, etc.) bypass the departments entirely and flow directly to Treasury/Cash Management for maintenance of support.

Recommendation:

We recommend management review its policies and procedures and make revisions as necessary to ensure standardization of all documentation needed for an audit trail of cash receipt transactions. Policies and procedures should designate individuals within the County departments that are responsible for maintaining certain portions of the audit trail. In addition, we recommend the County provide training to each department regarding these policies and procedures.

Management's Response:

Management is aware of the audit trail limitations within Infor since it is not considered the database of record for many of the cash receipt transactions that are recorded county-wide (that function resides at the subsystem level in many instances). Management will review its policies and procedures and see if County standardization is possible when implementing the next version of Infor, tentatively scheduled to start late calendar year 2022. When implementing the new version, training will be provided to County agencies to ensure consistency throughout the County on cash receipt transaction supporting documentation and subsequent audit trail standardization.

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APPENDIX A – RISK ASSESSMENT

Risk Factors

Department	Revenue Sources	Risk Factors					Rating		
		Lack of Treasury Involvement	Physical Cash	Volume	Multiple locations	Adequate internal control policies		Dollars collected	Routine audits
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
Division of Solid Waste and Recycling	Landfill and recycling 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
Division of Water and Sewer Utilities	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