



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

August 2, 2006

**Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402**

RE: Child Care Cash Collections, Audit 06-05

Dear Mayor Littlefield:

Attached is the Internal Audit report on cash collection policies and procedures in the Human Services Child Care Division.

The Department has already begun the process to strengthen internal controls over cash collections. We thank the staff of the Child Care Division for their cooperation and assistance during this audit.

Very truly yours,

**Stanley L. Sewell, CPA, CGFM
Director of Internal Audit**

**cc: Dan Johnson, Chief of Staff
Bernadine Turner, Human Services Administrator
Daisy Madison, Chief Financial Officer**

**HUMAN SERVICES DEPARTMENT
CHILD CARE CASH COLLECTIONS
AUDIT 06-05
August 2, 2006**

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Abigail Jones

Auditor



Director

**HUMAN SERVICES DEPARTMENT
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INTRODUCTION

The Chattanooga Human Services Child Care Program is licensed and accredited by the National Association for Education of Young Children. The program is licensed to serve 225 children (ages 6 weeks to 11 years), 160 in the center and 65 in child care homes. The Child Care Center provides a nutritious breakfast, lunch and afternoon snack daily. Transportation is provided on an as needed basis. Age appropriate educational programs are a part of the daily curriculum. Standardized screening is provided two weeks after enrollment which allows the teacher to prepare individualized developmentally appropriate activities in the areas needed. Some of the costs of the child care program are subsidized by the Federal and State governments. Portions of the fees not covered by government funding are paid by the parent/guardian of the enrolled children. Historically, fees collected from the parent/guardian have generally been paid in cash. As of July 1, 2006, only money orders are accepted.

STATEMENT OF OBJECTIVES

This audit was conducted to ensure that proper controls are in place and working accurately in regards to cash collections for the Human Services Department (HSD) Child Care Program. The objectives of this audit were to determine if:

1. There are documented cash collection procedures for the HSD Child Care Program.
2. Receipts are turned in to the Treasurer's office within the required 3 day period.
3. There are documented procedures for authorizing fee waivers.
4. All cash collections are accounted for.
5. There is a centralized system that tracks fee changes.
6. Past due accounts are being monitored by management on a regular basis.

STATEMENT OF SCOPE

Internal Audit staff reviewed enrollment information, collection reports and other documents. IA also conducted interviews and on-site inspections to verify and ensure the accurate collection of revenues due to the City. The audit period was from July 01, 2005 through July 28, 2006.

STATEMENT OF METHODOLOGY

Internal Audit staff reviewed the agreement between the City and enrolled participants, talked with Child Care staff, reviewed City accounting records from the BANNER system, reviewed collection reports, and made on-site visits to the Child Care Center to obtain a working knowledge of the operation of the Center. Actual collections were verified/compared to enrollment records.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. There are not documented cash collection policies and procedures in place.
2. Receipts are not being turned in to the Treasurer's office within the required 3 day period.
3. Proper documentation of fee waivers does not exist.
4. Funds were missing and unaccounted for.
5. There is no centralized system that tracks fee changes.
6. Proper supervisory review relating to Accounts Receivable is not in place.

CASH COLLECTION POLICIES AND PROCEDURES

The Department of Human Services Child Care Program does not have any formal written policies and procedures for cash collections in place. Due to a lack of policies and procedures there was no reasonable assurance regarding the achievement of safeguarding assets, ensuring validity of financial reports and records, adherence to regulations and laws or effectiveness and efficiency of operations.

RECOMMENDATION 1

To gain internal control and ensure proper handling of cash collections, Human Services Administration should document internal policies and procedures, business practices, and goals and objectives. Employees should have ready access to departmental policies and procedures (hard copy, computer-based or web-based). The Department should document receipt of such policies by all staff. The procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision

Additionally, we recommend HSD Child Care Program work with the finance department to incorporate such procedures into citywide policies.

AUDITEE RESPONSE

We concur that there are no written policies and procedures for the collection of cash in the Child Care Program. We have begun to develop written procedures to address all issues listed in the recommendation.

COLLECTIONS NOT SUBMITTED TIMELY

The Department of Human Services/Child Care Division does not turn in their cash collections to the Treasurer's office on a timely basis. Human Services Fiscal Operations Department will not collect money from the Child Care Program for submission to the Treasurer's office if there is a shortage. Money is held in the department when there is a shortage until all money is collected and accounted for. In one instance money was held in a safe for over ten days.

RECOMMENDATION 2

Per the Tennessee Code Annotated (TCA), 6-56-111 (a), money should be deposited and posted no more than three working days after collection. In addition a memo dated October 21, 2002 from the HSD Administrator indicates all cash payments are to be surrendered to the fiscal office by 3:00 p.m. on a daily basis, with any discrepancies immediately reported to the Assistant Administrator. All money collected should be submitted for management approval and deposited to the Treasurer's office within three working days regardless of any shortages.

AUDITEE RESPONSE

We concur with the recommendations and will comply with the requirement.

COLLECTION REPORT SUPPORTING DOCUMENTATION

Collection reports were often submitted without any supporting documentation attached. Section 1d of the City Accounting department Collection Report Procedures states, "Copies of checks, receipts and other supporting documents should be stapled to the back of the white original collection report."

RECOMMENDATION 3

All supporting documentation should be attached to the collection reports.

AUDITEE RESPONSE

Prior to March 1, 2006, the numbers on the receipts were written on the collection report. All other documentation was copied and attached to the report especially checks and money orders. After April 1, 2006, copies of the receipts were also attached to the report.

NO SUPPORTING DOCUMENTATION FOR FEE WAIVERS/SEGREGATION OF DUTIES

The HSD Administrator, HSD Deputy Administrator and Director of Child Care Services are all allowed to waive fees. However there is no documentation to support the fee waivers. There is no standardized form to complete to waive the fee. Parents do not have to submit a request for a fee waiver. In addition, the Director of Child Care Services is waiving fees and also collecting fees. There are no written policies and procedures stipulating what qualifies for a fee waiver. The state pays a portion of child care fees for those in need, consistent with ability to pay. It is unclear why a fee waiver would ever be necessary.

RECOMMENDATION 4

There should be written policies and procedures indicating what qualifies for a fee waiver (City portion). If a parent falls under hardship, the State should be notified of the situation in writing that a fee reduction is requested. In addition, the parent should provide proper supporting documentation in regards to the hardship. All fee waivers should be documented. Any fee waivers should be approved by the HSD Administrator or Deputy Administrator. A standardized form should be signed by both the City (HSD Administrator) and parent/guardian each time a fee is waived. Persons collecting fees should never have the authority to waive fees.

AUDITEE RESPONSE

We concur with the findings (fee waiver procedures will be established and incorporated in the overall policies of the Child Care program). Furthermore, the Deputy Administrator or Administrator will approve the request for fee waiver.

MISSING FUNDS

IA performed a cash count on our initial visit to the Child Care Division of the Human Services Department on June 5, 2006. Fees collected were from May 22 - June 5, 2006. The results of the count showed that \$90.00 was missing and unaccounted for. The receipts collected totaled \$1,686.00, however money actually counted only totaled 1,596.00 (\$90.00 difference). Ninety dollars of fees that were collected from May 22, 2006 until June 5, 2006 had been misplaced by the Director of Human Services Child Care Program.

RECOMMENDATION 5

Only one and possibly a second backup should be designated to collect cash. All money collected should be secured in a safe immediately after it is received. All money should be turned into the Treasurer's office within three days. Shortages should be traced and investigated by the HSD Administrator.

A conspicuous sign should be placed in the facility/office indicating the following or something similar: All money orders and/or checks should be made payable to "City of Chattanooga" only. If you do not receive an official City of Chattanooga receipt when making payments contact Internal Audit at (423) 425-6202.

AUDITEE RESPONSE

We agree that funds were misplaced. A sign will be posted in several conspicuous places in the building.

We concur and will assign an additional person not responsible for waiving fees. We will ensure that all monies are deposited within three (3) working days.

EXCESSIVE UNPAID CHILD CARE FEES

As of 6/9/06, eleven of thirteen child care fees tested had unpaid balances. The balances totaled over three thousand dollars. It appears there are no repercussions when parents don't pay their fees timely. Staff stated a memo is sent to parents indicating they will be terminated if they don't pay their fees. However, it appears it is not enforced. IA was not provided with any other policies or procedures concerning unpaid fees. The longer accounts are left unpaid the more likely they are to become uncollectible.

RECOMMENDATION 6

Proper internal controls should be designed and established for collection of receivables. There should be proper policies and procedures written and documented to support these internal controls. Notification to parents of termination due to late fees should be enforced. Aging evaluations can help prevent losses. An aging schedule showing the customer name, periods covered, past due amounts, etc. should be maintained and updated weekly. This schedule along with other relevant information should be forwarded to the Finance Officer in compliance with City Code Section 2-505 (Accounting procedures; weekly reports).

AUDITEE RESPONSE

Proper training and supervision of staff will be done.

The receivables will be reviewed and reevaluated based on the current income of the parents, and we will enforce the current policy. Written guidelines are being developed to determine when a fee should be extended.

SAFE NOT LOCATED IN A SECURED LOCATOIN

The Child Care Division's safe is portable and located in a room that is not locked. The safe is also located in a room that parents of enrolled children frequently visit. Due to these reasons, the physical security of the safe does not appear to be adequate.

RECOMMENDATION 7

IA recommends that the safe be moved to a room with a door that can be locked. We further recommend that the department invest in a safe that is secured to the floor or that is less mobile.

AUDITEE RESPONSE

We do not believe that it would be cost effective to purchase a heavier safe or have one bolted to the floor. The room where the safe is located can be locked. The safe is located behind a partition and is not visible to the general public entering the office.

NO CENTRALIZED SYSTEM TO TRACK FEE CHANGES

The accounting software that is currently used by the supervisor that manages fee collections does not have the capability to track or show fee history. If a child's fee increases or decreases, only the current fee can be entered into the system. The system is not capable of tracking any fee changes that have been made. The lack of a computerized system to track fee changes over a period of time makes it more difficult for management to supervise the cash collection process.

RECOMMENDATION 8

IA recommends that an updated system be implemented that allows the system user to enter and track all fee changes.

AUDITEE RESPONSE

We have looked into the possibility of upgrading the current system and are working out the details for implementation and training.

NO SUPERVISORY REVIEW/APPROVAL IN PLACE FOR ACCOUNTS RECEIVABLE

The Child Care Family Services Supervisor maintains the Accounts Receivable system for the HSD child care system. No manager above the Child Care Family Services Supervisor reviews/signs off on adjustments/changes that are made to customer statements. Customer statements provide a current status of A/R on an individual customer basis.

RECOMMENDATION 9

IA recommends that the Department implement a policy that requires a manager above the Child Care Family Services Supervisor to review all the customer statements on a weekly basis. This policy should also require a documented management approval of any adjustments/changes made to customer accounts.

AUDITEE RESPONSE

Please refer to the Auditee Response to Recommendation 6. In addition, the Child Care Manager will review the outstanding balances on a monthly basis.