Department of Aging

Revenue Handling Audit

Audit Period: July 2015 through June 2016

Results Summary:

Objective	Conclusion
Revenue received through the main lock box.	**Well-Controlled with Improvement Needed**
Revenue received through the Department of Aging's central office.	**Improvement Needed**

* Please refer to Appendix A for classification of audit objective conclusions.

Executive Summary

Background

The Ohio Department of Aging (AGE) has three programs in which they receive revenue to support their services through various fees, including: 1) Long-Term Care Consumers Guide, 2) Ombudsman Activities (Bed Fee), and 3) Board of Executives of Long-Term Services and Supports (BELTSS). Each program generates approximately $600,000-$900,000 in revenue from fees each year. In August 2015, AGE began directing all payees to submit payments through a bank lockbox assigned to the Department; however, payees may still submit payments to AGE headquarters, at which point AGE sends the payments to the bank lockbox through use of an overnight mail delivery service. Once received at the lockbox, the payments are processed by Ohio Shared Services (OSS) on behalf of AGE.   Revenue from Attorney General collections are also sent directly to AGE, which is then forwarded to the lockbox. With the new adoption of the lockbox, the processes in place at AGE are still being formalized.

During the audit, OIA identified opportunities for AGE to strengthen internal controls and improve business operations. A summary, along with detailed observations, has been provided. This audit conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank AGE staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA was engaged to perform an assurance audit related to the controls over the agency's revenue handling processes. This work was completed July through September 2016. The audit period under review included July 1, 2015 through June 30, 2016 (fiscal year 2016).

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over revenue received through the lockbox.
- Evaluate the design and effectiveness of controls over revenue received through the Department of Aging's central office.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Standardized Check Logging and Timeliness of Deposits

A sound internal control framework should include procedures to verify the accuracy and completeness of revenue. Essential to these control procedures is the creation of a record documenting the initial receipt of checks to assist program and fiscal personnel in processing, monitoring, and validating complete deposits of all checks received at the Department of Aging (AGE). Furthermore, Ohio Administrative Code section 113-1-02(A) requires state agencies to deposit all monies collected into the state treasury within three business days of receipt by a state entity.

Currently, AGE has outdated policies and procedures documented over the handling of revenue that do not include the agency's current processes. As a possible result, OIA noted inconsistencies in the methods used throughout the Department to document the receipt of checks received via mail and walk-ins. Specifically, the Elder Rights Division (ERD) program does not utilize a log to document checks received for Bed Fee or Consumer Guide fees. Meanwhile, the Board of Executives of Long-term Services and Supports (BELTSS) program staff utilizes a log, signed by both Program and Fiscal staff, to record various check information, including the check date; however, the log does not capture the date the check was actually received by the Department. Furthermore, a transmittal form is created for each collection check received from the Attorney General's Office (OAG); however, this form also does not document the check receipt date, nor is it signed by program or fiscal staff. OIA also noted checks are not being secured immediately upon receipt; they are transferred to the appropriate program area first to be recorded, then to the Fiscal division at which time they are secured in a locked safe until sent overnight to the Department's lockbox for deposit.

When testing forty-six checks from ten separate deposits, OIA noted the following:

- Eight (17%) of nineteen checks containing evidence of a date stamp (via invoice or calculator tape attached to the check) exceeded the three-day deposit rule by one to four days.

- For an additional nine checks, there was no direct date stamp attached to the check, nor was the check receipt dates recorded in a log. However, OIA was able to utilize the date the check log was signed by program, indicating when the check(s) were provided to Fiscal, to estimate the receipt date. Using this date, three (7%) checks appeared to be deposited one day late. However, this is based on program's signature date on the log and may not necessarily represent the actual receipt date.

- Eighteen checks (32%) were unable to be tested for timeliness of deposits since neither the invoice nor check were date stamped when received. These were collections checks from the AG's Office for which ERD does not document a receipt date.

Failure to document payments and secure checks at the initial point of receipt increases the risk of checks being misplaced, lost, or stolen. Additionally, failure to record receipt dates increases the risk of noncompliance with OAC depositing requirements.

Recommendation

Develop and implement an agency-wide process over the handling and recording of checks received at AGE to promote consistency throughout the Department and to establish controls in the process. Items to consider when developing this process:

· Consider creating a standardized check log as the initial source documentation to be completed by the Department staff opening mail. This log should capture the check number, amount, who the payment is from, what the payment is for, and the date the check was received by AGE.

· Two individuals should be present when opening the mail; the individual at the initial point of receipt will log all payments received and sign/date the log once complete; the second person verifies the accuracy and completeness of the log, before signing, dating, and submitting the log and checks to Fiscal.

· All check logs should be signed by Fiscal indicating all items listed have been received, and then immediately secure all checks until picked up for overnight mail.

· Fiscal should then use the log to reconcile checks received 'in-house' to the Accounts Receivable Report from OAKS to ensure the deposit is accurate and complete. This will help to reduce the number of copies of checks currently being utilized throughout the agency, as there is no benefit to providing the physical checks or copies of the checks to program staff. If necessary, program staff can obtain access to the scanned documents within the Accounts Receivable system (AR Engine) once processed. Additionally, checks contain sensitive data, therefore AGE should take all appropriate measures to reduce the opportunities for information to be inappropriately accessed and/or used.

· Consider updating the mailing information with the OAG to allow checks to be directly mailed to the lockbox for OSS to process. The payee listed on OAG checks should indicate the type of fee collected, which would allow OSS to know which account to deposit the funds. However, if unable to process the checks received, OSS can contact AGE's fiscal staff to determine the proper coding or deposit into a temporary holding account (if available) so they can continue to process the batch. AGE could then monitor the holding account and create modifications to post the revenue appropriately into OAKS.

· Also, consider sending a notice to individuals who continue sending payment directly to AGE, communicating the payment address has changed and they need to update their records.

- Consider creating a small kiosk, with pre-addressed lockbox envelopes, within the lobby of AGE's building with directions to the nearest post office. This would help to eliminate walk-in payments directly to the Department and reduce the cost of overnight postage AGE currently pays to have the checks submitted and deposited through the lockbox.

Once defined, to provide staff with adequate guidelines over the internal check-handling process, the process should be formally documented and approved by management, and reviewed periodically for updates.

Management Response

AGE will develop and implement an agency-wide process over the handling and recording of checks received at AGE to promote consistency throughout the Department and to establish controls. The process will be formally documented and approved by management.

The new process will include these requirements:

1. Two individuals will open the mail. One person will log all payments and sign and date the log. This log will contain the check number, amount, who the payment is from, what the payment is for, and the date the check was received by AGE. The second person will verify the accuracy and completeness of the log, sign, date, and submit the log and checks to Fiscal.

2. Notices will be sent to individuals who continue sending payment directly to AGE, communicating the payment address has changed.

3. Fiscal will sign all check logs indicating all items listed have been received and immediately secure all checks until picked up for overnight mail.

4. Fiscal will reconcile the log of checks received 'in-house' to the OAKS AR Report to ensure the deposit is accurate and complete.

5. Checks contain sensitive data; AGE will reduce the opportunities for information to be inappropriately accessed and/or used. Program staff can obtain access to the scanned documents within the AR Engine.

6. AGE will update mailing information with the OAG so checks will be directly mailed to the lockbox.

AGE will work with the Department of Health to accept payments for AGE at Health's secure revenue room.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Fiscal Officer	December 2016

Observation 2– Lack of Monitoring Over Unapplied Payments and Refund Requests

A best practice when collecting fees is to ensure amounts are accurately recorded and credited to the correct customer account. Issues can arise when unapplied or improperly applied payments are not recognized and corrected timely. If it is determined a customer has overpaid on their account, a refund request should be initiated. This should be done on a timely basis to ensure accounts are up-to-date and the agency's financial records are accurate for the period. Supervisors should periodically monitor unapplied payments and refund requests to ensure they are being processed timely and appropriately.

The Department of Aging (AGE) collects payments from long-term care facilities in the form of bed fees, consumer guide fees, as well as licensure renewals from nursing home administrators. AGE utilizes an accounts receivable system (AR Engine) to automate the accounts receivable process, including applying payments to the appropriate accounts. Currently, when a payment is not posted automatically to an individual account within the AR Engine, the payment is categorized as unapplied. Reasons for payments not posting automatically include items (i.e., invoice numbers, amounts, etc.) not matching to the existing criteria in the AR Engine. Each program area can sort through payments in unapplied status, conduct research, add notes, and request a refund or apply a payment, as deemed appropriate. However, there is no documented evidence of supervisors monitoring unapplied payments to ensure they are applied accurately and completely, and within a reasonable timeframe.

During OIA's review of unapplied payments, there were numerous transactions noted, a majority of which management indicated had been addressed but not removed from the unapplied payment screen. For example, if a nursing home administrator requests a name change and includes the associated fee with their renewal payment, the AR Engine cannot apply that payment to the administrator's account since the invoice amount issued by AGE was for the renewal fee only, and therefore, the amount paid does not agree with AGE's records. For the majority of these cases, the program staff reviewing the unapplied payment added a note indicating a name change was requested but no further action was taken to apply the payment to the customer's account. Based on discussions with AGE's Information Systems Division (ISD), the program area should be creating a new invoice for the name change so the payment can be properly split between the two invoices.

Based on the Unapplied Payments Report generated from the AR Engine, OIA noted the following:

- · A total of 176 transactions, equaling $50,780 are listed as "unapplied":
- · For calendar year 2015, there are $7,879 in unapplied payments still outstanding;
- · Oldest outstanding payment date is from August 2015.

Additionally, if a refund is deemed appropriate, the program area completes a Request for Refund Form, as well as submits a request within the AR Engine. The form is approved and signed by a supervisor prior to being sent to Fiscal for the refund to be issued. The AR Engine tracks all refunds that have been requested, but as this system process has been newly developed, it has not been fully implemented by Fiscal. As a result, a refund may be issued but the request remains in "refund requested" status within the AR engine, making it difficult to recognize requests already processed versus those outstanding. Consequently, OIA requested documentation for four refunds identified from the AR Engine within fiscal year 2016; however one refund has not yet been paid although it was identified as a refund request, with a payment received date of December 2015. Fiscal relies solely on the program area to provide the refund request form rather than relying on the information within the AR Engine.

Lack of monitoring payments identified as unapplied or in refund requested status increases the risk of inappropriately updating customer accounts. Additionally, not updating the customer accounts on a timely basis increases the risk of nursing home administrators not being provided their license timely, despite having paid the appropriate fee. Conversely, if an Administrator is provided their license but their payment has not been applied to their account, it could appear the license was issued inappropriately. The effectiveness and reliability of system reporting is also decreased when unapplied payments and refund requests are not fully executed within the system.

Recommendation

Consider requiring each program area to monitor and address payments in unapplied status on an ongoing basis. The quicker the payment is applied, the more accurate reporting can be generated from the AR Engine. Ultimately, all unapplied payments should be identified and attempted to be applied prior to creating the listing of outstanding accounts to be certified to the Attorney General's Office for collections.

Additionally, the Fiscal Division, or at a minimum, a program supervisor, should monitor the unapplied payment activity and refund status at month end to ensure items are being addressed timely and appropriately. An additional review should be considered for payments that are manually applied to reduce the risk of inappropriately updating a customer account. Consider adding a review function within the AR Engine, allowing for a supervisor review prior to the system posting manually applied payments. Also, consider establishing a timeframe for program to address unapplied payments. If the payment cannot be identified and applied within the designated timeframe and AGE has adequate information to identify the payee, a refund should be issued to the payee.

Lastly, consider fully utilizing the AR Engine to include initiating the refund request, rather than the current process of manual completion of a paper request form. Program approvals along with supporting documentation could be maintained within the system and fiscal could process

based on the attached support. Fiscal should also be required to update the status of refunds within the AR Engine, once the single payment voucher is fully processed, documenting the voucher number and payment date. This would allow all support and approvals to be maintained and documented in a centralized location and allow for more accurate system reporting based on the status of each request. A timeframe should also be established to ensure all refund requests are processed timely.

Policies and procedures should be developed and formally documented and approved once the process is defined so individuals are aware of their responsibilities and expectations when it comes to processing unapplied payments and requesting refunds. Policies and procedures should be reviewed by management and updated, as necessary, on a periodic basis.

Management Response

AGE will define the processing of unapplied payments and refund requests so all individuals and program areas know their responsibilities and expectations.

1. Each program area will be required to monitor and address unapplied payments within a designated timeframe. All unapplied payments will be identified and (attempted to be) applied prior to certification of outstanding accounts to the AG.

2. Fiscal will monitor unapplied payment activity and refund status at month end to ensure items are addressed timely and appropriately.

3. The AR Engine will include a new review function that requires program supervisor review prior to the posting of manually applied payments.

4. Payments that cannot be identified and applied within the designated timeframe will be refunded to the payee, if AGE has information to identify the payee.

5. All refund requests will be initiated in the AR Engine. Program will request refunds within the AR Engine and Fiscal AP staff will be notified by the AR Engine of the request. Program documentation will be maintained in the AR Engine.

6. Fiscal AP staff will process refunds within 30 days of notice. Fiscal AP staff will update the status of refunds within the AR Engine once the single payment voucher is fully processed, documenting the voucher number and payment date.

Procedures will be documented and approved when the process is defined.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Fiscal Officer	December 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.

Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee