

**Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit**



**Cash Receipts Informational Questionnaire
Of Executive and Judicial Branch Departments**

Prepared by Watkins Meegan LLC

March 12, 2015

Cash Receipts Questionnaire

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Highlights

Why MCIA Did this Project?

As a result of the implementation of the Oracle Enterprise Business System in July 2010, the County has been transitioning from a de-centralized cash receipt processing environment to one with a centralized accounts receivable oversight program, and is in the process of developing enterprise wide policies and procedures.

Therefore, the Montgomery County Department of Finance sought to compile certain information about the County's cash receipts processing and identify opportunities to improve and strengthen the process and internal controls. Watkins Meegan was engaged by the Montgomery County Office of Internal Audit (MCIA) to assist in the collection of information about cash receipts through the use of a cash receipts questionnaire.

What MCIA Recommends?

At a high level, we recommend the Department of Finance utilize the information gathered to develop a long-term plan, with clear milestones, to continue its efforts to strengthen and enhance the cash receipts process and internal controls across Montgomery County. The plan should include development of County-wide policies to ensure all departments, offices, and programs are implementing and adopting applicable internal controls consistently.

The individual departments and offices can then develop new or adapt existing procedures to align with County policy as well as risks unique to the individual departments. Due to the size and nature of this effort, we recommend the plan use the risk ratings to prioritize efforts and include a timeline with key milestones. In implementing internal controls around cash receipts, management should consider the use of an internal control framework, such as the Committee of Sponsoring Organizations' *Internal Control – An Integrated Framework*. The County Finance Department concurred with the recommendations.

Cash Receipts Informational Questionnaire of Executive and Judicial Branch Departments

What MCIA Did?

We designed and distributed a 100-question cash receipts questionnaire. The questionnaire was comprised of three core sections representing the main steps in the cash receipts process – collections, deposits, and recording. Other questions were included to address internal controls and general topics that relate to all three areas of cash receipts. The term “receipts” or “cash receipts” refers to any payment collected or other receipt of money, in any form (including, but not limited to: cash, check, credit card, wire transfer, ACH, etc.).

Of the 100 questionnaire questions, 33 questions were related to basic internal controls expected in a cash receipts process in a typical organization of County's size. We developed a risk rating based on the responses to the 33 questions related to basic internal controls.

A total of two-hundred and twenty-nine (229) recipients across all applicable departments were selected by department personnel to complete the questionnaire. These recipients covered the 26 departments determined to process cash receipts based on data obtained from Oracle, as well as confirmation from the departments.

The results of the questionnaire were then analyzed and a risk rating was performed by department/office. Other key metrics based on questionnaire responses were also included in the report.

What MCIA Found?

Of the 229 questionnaire recipients, 72% (164) responded to the questionnaire and were included in the questionnaire results, 20% (46) responded that they do not take part in cash receipts, and 8% (19) did not complete the questionnaire.

Based on responses, we performed an initial risk rating without inclusion of revenue as a risk factor. Of the 26 participating departments/offices we classified five (5) as 'High' risk, nineteen (19) as 'Medium' risk, and two (2) as 'Low' risk. 'High' risk rating was based on responses to questions indicating they have less than 60% of basic internal controls in cash receipts that would be expected within a similarly sized organization. Similarly, 'Medium' risk indicated 60-80% of basic internal controls and “low” risk indicated at least 80% of basic internal controls.

Policies and procedures are needed to establish formal requirements and expectations for ensuring that funds received by the County are appropriately collected, safeguarded, and recorded in the official books and records. Without enterprise-wide guidelines, procedures developed at the department/office level may not include important controls and sufficient oversight of the cash receipts process.

It is important to note that the project did not include testing of any internal controls and was not intended to disclose any instances of fraud or material errors resulting from the analysis of the questionnaire results.

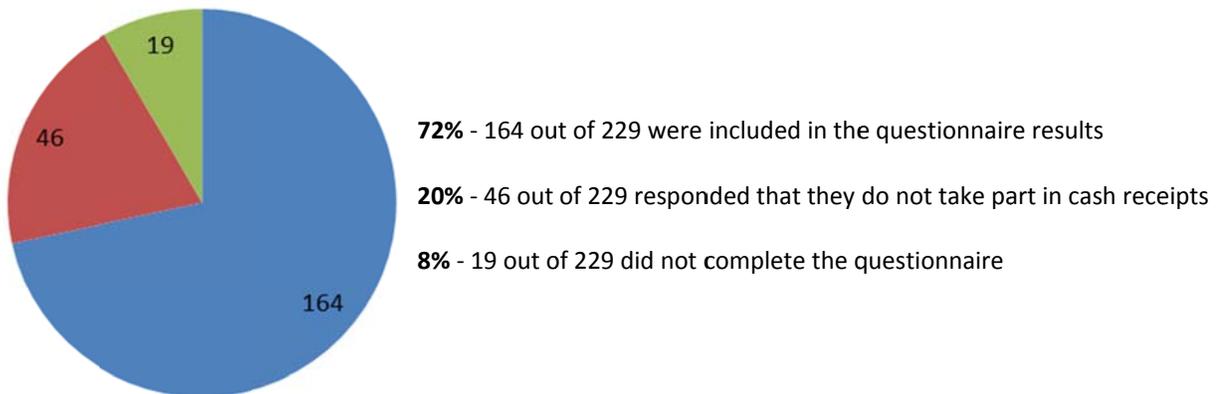
Introduction

The Montgomery County Department of Finance sought to compile information about the County's cash receipts process. The Department of Finance is aware that cash receipts processing is managed separately within each individual department, office, division, or program. The County has certain centralized policies and procedures, primarily relating to systems, security, access, and transaction recording through the system. However, the County does not have a full set of centralized, documented policies and operating procedures. A significant amount of cash receipts do not correspond to a customer bill; therefore, the timing and amount of money owed may not be known before receipt. The Department of Finance is seeking to mitigate these and other risks by gaining a more complete understanding of departmental cash receipts processing, and, identifying opportunities to improve and strengthen the process and internal controls.

On behalf of the Montgomery County Office of Internal Audit (MCIA), Watkins Meegan was engaged to assist in the collection of information about cash receipts through the use of a cash receipts questionnaire. The questionnaire was designed to gather information from the departments, offices, divisions, and programs of the Executive and Judicial Branches of Montgomery County. The three cash receipts functions addressed by the questionnaire were collections, deposits, and recording.

A total of 229 recipients across all applicable departments were selected by department personnel to complete the questionnaire. These recipients covered the 26 departments determined to process cash receipts based on data obtained from Oracle, as well as confirmation from the departments. The overall response rate is summarized in Chart 1 below. A more detailed breakdown by department/office can be found in Appendix I.

Chart 1 – Questionnaire Response Rate



The following report provides a brief background of cash receipts and outlines the objectives and methodology used to develop and distribute the questionnaire. Furthermore, the report describes questionnaire results, including a risk rating by department, other metrics, and recommendations for possible follow-up by the Montgomery County Department of Finance.

Background

Total revenues for Montgomery County for the fiscal year ended June 30, 2013, excluding investment income and gain on sale of capital assets, were approximately \$4.11B, which can be broken down between program revenues (charges for services as well as operating and capital grants and contributions) of approximately \$893M and general revenues (property, income, and other taxes) of approximately \$3.22B¹. Based on the information obtained from Oracle and discussions with the Department of Finance, we estimated that approximately \$1.4B of the \$4.11B is collected at the department level and considered in scope for this review. Our review did not include collections such as taxes, debt service, construction in progress, restricted donations, and non-departmental accounts.

There are twenty-nine (29) Executive Branch Departments and four (4) Judicial Branch Departments of Montgomery County. Prior to 2013, cash receipts were generally entered in the general ledger by individual departments or were submitted to the Department of Finance's Treasury Division for entry. Beginning in January 2013, the Accounts Receivable team within the Department of Finance began to centralize the entry of certain cash receipts within the Accounts Receivable Section. As of July 2013, cash receipts can be entered into the general ledger by the individual department, Treasury cashiers, or the Accounts Receivable team. Many of the departments have cash receipts recorded for them by the Accounts Receivable team of the Department of Finance. Most of the collection and deposit functions, as well as recording into departmental applications, are still performed by the individual department or office.

Objectives

The objectives of the questionnaire were to:

- Gather information from all County Executive Branch and Judicial Branch departments, offices, divisions, and programs to determine whether they collect or receive receipts, as well as the annual amount, volume, frequency, and various forms of receipt;
- Gather information to determine the process and internal controls around how receipts are collected, deposited, safeguarded, and recorded;
- Provide a high level risk rating by department based on the level of basic internal control each department or office has in place based solely on questionnaire responses; and
- Provide the results of the questionnaire to the Montgomery County Department of Finance to help determine whether improvements are needed in the County's cash receipts policies and/or procedures.

The scope of the questionnaire includes all revenue or other receipts received by all County Executive Branch and Judicial Branch departments, offices, divisions, and programs. Receipts collected and held in escrow, investment income, and the gains on sale of capital assets are outside the scope of this review and analysis.

¹ Revenue data obtained from the Comprehensive Annual Financial Report 2013.

Approach and Methodology

Questionnaire Tool

Watkins Meegan researched a variety of online questionnaire tools to determine a tool that would best accommodate the cash receipts questionnaire. It was decided, jointly by MCIA and the Department of Finance, that we would use an online questionnaire tool already in use by Montgomery County, called PollDaddy, to distribute the cash receipts questionnaire. PollDaddy had both the functionality and security that would best suit the questionnaire. The account is owned by Montgomery County and select personnel at Watkins Meegan were granted access in order to develop and distribute the questionnaire, as well as analyze the results.

Question Development

The questions used in the questionnaire were developed to gather basic information about each step in the cash receipts process: collections, deposits, and recording. A general section of questions was also included to address topics that may apply generally to cash receipts processing, such as segregation of duties, policies/procedures, and training. A section was also included for questions related to various technologies that may be used in cash receipts processes, such as check scanners, credit card swipe machines, etc. Questions were included throughout the questionnaire around basic internal controls that would be expected in the cash receipts process of a typical large organization such as the County. Examples of expected internal controls would include:

- Segregation of duties between collections, deposits, and recording;
- Policies, procedures, and training;
- Various reconciliations, such as those between deposit slips and collection logs, department applications and bank records, and Oracle (general ledger) and department applications;
- Review-type controls, such as review of cash counts and deposit slip preparation.

These internal control questions were the basis for the risk rating by department, which is discussed in more detail later in this section of the report.

There were 100 questions in the cash receipts questionnaire, which can be broken down by section and question type in Table 1 and Table 2 below:

Table 1 – Questionnaire Question Breakdown by Question Type

| Question Type | # Questions |
|--|-------------|
| Open Ended | 8 |
| Single Choice | 61 |
| Single Choice (with "write-in" option) | 16 |
| Multiple Choice | 15 |
| | 100 |

Table 2 – Questionnaire Question Breakdown by Question Section

| Question Section | # Questions |
|--|-------------|
| Job Information (Demographics) | 7 |
| Policies and Training | 11 |
| Collections | 30 |
| Deposits | 15 |
| Recording | 19 |
| Technology (Remote Deposit, Credit Cards, System Access) | 11 |
| Satisfaction and Comments | 7 |
| | 100 |

The number of open ended questions was kept to a minimum to allow for faster completion time, as well as faster and easier analysis of results. In addition, skip logic functionality was used for the main categories of collections, deposits, and recording in order to ensure only personnel who took part in each process answered the relevant questions. If a questionnaire respondent answered “no” to any of the skip logic questions at the beginning of the collections, deposits, and recording sections, they were automatically skipped over these set(s) of questions. Unless a set of questions were skipped by the skip logic functionality, all questions in the questionnaire were mandatory.

Pilot Questionnaire

A pilot questionnaire was sent to 7 recipients across 3 departments in order to test the questionnaire prior to distribution. We obtained 100% participation from the pilot recipients. Minor edits were made to question language and answer options based on the pilot results. Questions and answer choices for both the pilot questionnaire and the final questionnaire were reviewed and approved by the Montgomery County Department of Finance and the Office of Internal Audit prior to being sent to any recipient.

Questionnaire Distribution

With agreement from the Department of Finance, it was decided that the questionnaire would be sent to a sample of recipients from each department, office, and program that processes cash receipts rather than every individual who processes cash receipts on behalf of these departments. The primary reason for this decision was to limit the total number of hours required by the County to complete the questionnaire. We estimated the questionnaire to take approximately 30-45 minutes per person to complete. The purpose of the questionnaire was to gather information and not to perform any testing or validate policies, procedures, or test the effectiveness of internal controls that may currently be in place.

Finance provided a list of possible questionnaire recipients by department. This list was included as an attachment to a memo sent to all department directors requesting that they (1) review the list of questionnaire recipients and confirm the recipients provided an adequate representation of all types of cash receipts processed by the department and/or make adjustments, as needed, and (2) provide an approximate revenue (or total cash receipt) figure for their department for fiscal year 2013.

Follow up emails and phone calls were made by both Watkins Meegan and Finance to encourage participation with the questionnaire. Detailed results of the questionnaire can be found in the Questionnaire Results section of this report.

Risk Rating

As mentioned above, specific questions were designed to determine if basic internal controls relevant to the cash receipts process were present in the departments and offices of Montgomery County. Responses to 33 of the 100 questionnaire questions were used in the risk rating. The remaining 67 questions were not designed to make a determination as to the existence of internal controls, but rather to gather other information relevant to the cash receipts process to provide information to the Department of Finance. The listing of the 33 risk rating questions, including possible answers and scoring of answers, is included in Appendix II.

We applied risk ratings to four risk categories which are defined below. Each of the 33 risk rating questions fits within one of the categories.

- (1) **Collections** – This category represents the best practices and internal controls related to how cash receipts are collected and handled from the physical receipt or transfer from the customer up until the preparation of deposit slips, including factors such as segregation of duties, safeguarding of assets, and accountability.
- (2) **Deposits** – This category represents the best practices and internal controls related to how cash receipts are deposited, including the preparation of the deposit, physical deposit with the bank, and reconciliation after deposit.
- (3) **Recording** – This category represents the best practices and internal controls related to recording cash receipts in both the individual department/office applications or other tracking mechanism and the general ledger, including factors such as segregation of duties and reconciliation.
- (4) **General Internal Control** – This category represents the best practices and internal controls related to all three areas of the cash receipts process, including training and policies and procedures.

The response to each of the 33 risk rating questions was given a score of zero (0) or one (1); (0) meaning, based on the response, the control is in place; (1) meaning, based on the response, the control is not in place. Therefore, a higher score indicates weaker internal control (or higher risk).

The total score for each risk category was divided by the number of questionnaire respondents for each section of the questionnaire for that department or office. The purpose of this calculation was to determine the average score by category and by department/office and not to affect the averages when the total number of responses from a particular department or office varied between risk categories.

The total possible score by risk category is shown in Table 3 below. There is a total possible score of 37 when all risk categories are combined. The reason the total possible score is greater than the number of questions is because a few questions are multiple-part questions, which received a separate score for each part.

Table 3 – Total Possible Risk Rating Score by Risk Category

| Collections | Deposits | Recording | General Internal Control | Total Possible Score |
|-------------|----------|-----------|--------------------------|----------------------|
| 10 | 8 | 8 | 11 | 37 |

A rating of High (H), Medium (M), or Low (L) was assigned to each risk category for each department based on the scale in Table 4 below:

Table 4 – Determination of Risk Rating by Risk Category based on Risk Rating Score

| | Collections | Deposits | Recording | General Internal Control |
|-----------------|---------------|---------------|---------------|--------------------------|
| High (41-100%) | 4.1 and above | 3.3 and above | 3.3 and above | 4.5 and above |
| Medium (21-40%) | 2.1 to 4.0 | 1.7 to 3.2 | 1.7 to 3.2 | 2.3 to 4.4 |
| Low (0-20%) | 0 to 2.0 | 0 to 1.6 | 0 to 1.6 | 0 to 2.2 |

The breakdown of percentage of questions to the High, Medium, and Low ratings was decided based on the fact that the risk rating questions were related to basic internal controls. A rating of High was assigned when more than 40% of the question responses indicated a missing internal control. The rating of Medium and Low were then split evenly between 0% and 40%, which was considered reasonable. The detailed results by department/office and risk category are provided below under Questionnaire Results.

As shown in Table 5 below, 6 out of 26 departments/offices did not provide responses to cover one or both of the collections and recording risk categories². For example, one department had responses to all general questionnaire questions, as well as deposits and recording, but no responses to the collections section.

Table 5 – Departments/Offices with Missing Response to One or More Risk Categories

| DEPARTMENT/OFFICE | Missing Risk Category |
|--|---------------------------|
| 1 Circuit Court (CCT) | Recording |
| 2 County Executive's Office (CEX) | Recording |
| 3 Department of Technology Services (DTS) | Collections and Recording |
| 4 Emergency Management and Homeland Security (OEMHS) | Collections |
| 5 Ethics Commission (ECM) | Recording |
| 6 Office of Human Resources (OHR) | Collections and Recording |

² A missing response to one or more sections of the questionnaire caused the raw risk rating scores to be skewed. Those departments/offices that did not respond to all three sections received an artificially low risk rating. Therefore, an adjusted risk rating score was calculated, which was used for presentation and comparison of questionnaire results.

Due to missing responses, an adjusted score was calculated by first taking the average risk rating for each of the risk categories of collections, deposits, recording, and general internal control. Next, for any department or office missing a response in any of the risk categories, the average risk rating for the missing risk category (or categories) was added to the raw risk rating score. This resulted in an adjusted risk rating score for each department or office. The average scores added back to the raw scores for departments/offices missing a response to the risk categories are listed in Table 6 below.

Table 6 – Average Risk Rating Score by Risk Category

| | Collections | Deposits | Recording | General Internal Control |
|----------------------|--------------------|-----------------|------------------|---------------------------------|
| Average Score | 2.7 out of 10.0 | 3.6 out of 8.0 | 2.4 out of 8.0 | 3.6 out of 11.0 |

The adjusted risk rating score only includes the results of questions related to basic internal controls. The amount of revenue, or cash receipts processed, by each department is also a key factor in evaluating the risk level of a department. The risk for a department that processes \$100M in cash receipts is greater than that risk for a department that processes \$1M in cash receipts. Due to the fact that the amount of revenue, or cash receipts processed, varies so widely between departments and offices of Montgomery County (from approximately \$3K to \$258M), we did not apply a factor for revenue size equally across all departments. We also did not want to take away from the value or visibility of the adjusted risk rating score.

It was decided, and agreed to with MCIA and Finance, that departments/offices would be grouped by total departmental revenue reported in Oracle for FY2013. The groupings were based on the percent of total revenue reported in Oracle for all departments/offices participating in the questionnaire (approximately \$1.4B) and are shown in Table 7 below. We recognize that there is risk present for even a small level of cash receipts processed based on the inherent risk of cash receipts in general. However, we believe these groupings will help the Finance prioritize their efforts as they continue to understand and improve how cash receipts are processed across the County.

Table 7 – Revenue Groupings for Risk Rating Presentation

| Revenue Size | Percent of Total Revenue (\$1.4B) |
|---------------------|--|
| > \$70M | 5% or greater |
| \$14M - \$70M | less than 5%, but greater than 1% |
| < \$14M | 1% or less |

Questionnaire Results

General

There are 29 Executive Branch and four Judicial Branch departments/offices in Montgomery County. Of these 33 departments/offices, six reported that they do not process cash receipts and, therefore, were not included in the questionnaire results—see Table 8 below. One additional office did not have any valid responses to the questionnaire. The remaining 26 departments/offices are included in the results.

Table 8 – Montgomery County Executive and Judicial Branch Departments/Offices Not Included in Questionnaire Results

| | |
|---|---|
| 1 | MC Employee Retirement Plans/Board of Investment Trustees (BIT) |
| 2 | Department of Public Information (PIO) |
| 3 | Office of Intergovernmental Relations (IGR) ³ |
| 4 | Register of Wills (ROW) |
| 5 | Office of Management and Budget (OMB) ⁴ |
| 6 | Human Rights (HR) |
| 7 | Office of Consumer Protection (OCP) ⁵ |

In planning the questionnaire, we identified FY2013 revenue by department/office using Oracle reports provided by the Finance. For in-scope departments/offices, FY2013 revenue was estimated to be approximately \$1.4 billion. Individual department/office amounts were used as a baseline for grouping departments/offices of similar revenue size as described in the Risk Rating section of the report below.

In addition to completing the questionnaire, we requested that each department provide a detailed breakdown of FY2013 estimated revenue by revenue code (or similar category utilized by the department for reporting purposes). We noted several variances in total revenue between the revenue estimates provided by the departments and the revenue figures obtained from Oracle. This may be explained in part by the fact that several departments collect receipts on behalf of other departments.

Table 9 below lists the 26 departments who responded to the questionnaire and details the number of respondents by department and fiscal year 2013 Oracle revenue.

³ Oracle is showing approximately \$30K in revenue for IGR for FY2013. IGR confirmed that the department does not process cash receipts and at least one questionnaire respondent from the Department of Finance indicated they process cash receipts for IGR; therefore, IGR was excluded.

⁴ OMB receives approximately \$5 for every hard copy of the budget publications sold (which is also available online for free). OMB estimates that approximately \$10 has been received by OMB in the last few years. Although there is \$0 in revenue in Oracle for FY2013, an employee from OMB requested to take part in the questionnaire due to the fact that receiving a small amount of revenue is possible. These responses are being provided to the Department of Finance, but not included in the formal questionnaire results.

⁵ The Office of Consumer Protection did not have any valid responses to the questionnaire; however, it had approximately \$630K in revenue, which is both the amount of revenue the department reported, as well as the amount in Oracle. Upon further inquiry with the Office of Consumer Protection, we noted the Department of Housing and Community Affairs collects some revenue on behalf of the Office of Consumer Protection. This was confirmed by a questionnaire respondent from the Department of Housing and Community Affairs. No questionnaire results were reported specifically for the Office of Consumer Protection.

Table 9 – Questionnaire Respondents and FY2013 Revenue by Department/Office

| | DEPARTMENT/OFFICE | Questionnaire Respondents | FY2013 Revenue (per Oracle) |
|----|--|----------------------------------|------------------------------------|
| 1 | Department of Health & Human Services (HHS) | 23 | \$ 104,800,351 |
| 2 | Department of Liquor Control (LIQ) | 21 | \$ 258,908,078 |
| 3 | Department of Finance (FIN) | 18 | \$ 66,807,403 |
| 4 | Department of Police (POL) | 12 | \$ 38,892,364 |
| 5 | Department of Transportation (MCDOT) | 12 | \$ 219,698,563 |
| 6 | Department of Environmental Protection (DEP) | 11 | \$ 133,080,434 |
| 7 | Department of General Services (DGS) | 10 | \$ 89,893,218 |
| 8 | Department of Recreation (REC) | 10 | \$ 44,751,903 |
| 9 | Fire & Rescue Service (FRS) | 8 | \$ 233,797,726 |
| 10 | Department of Public Libraries (LIB) | 7 | \$ 6,163,479 |
| 11 | Department of Permitting Services (DPS) | 6 | \$ 44,918,729 |
| 12 | Department of Economic Development (DED) | 4 | \$ 4,160,670 |
| 13 | Sheriff's Office (SHF) | 4 | \$ 2,225,489 |
| 14 | Board of Elections (BOE) | 2 | \$ 3,320 |
| 15 | Community Engagement Cluster (CEC) | 2 | \$ 7,267,754 |
| 16 | Community Use of Public Facilities (CUPF) | 2 | \$ 13,232,160 |
| 17 | County Attorney's Office (CAT) | 2 | \$ 536,386 |
| 18 | Department of Housing & Community Affairs (HCA) | 2 | \$ 88,701,825 |
| 19 | Circuit Court (CCT) | 1 | \$ 3,191,312 |
| 20 | County Executive's Office (CEX) | 1 | \$ 158,077 |
| 21 | Department of Correction & Rehabilitation (COR) | 1 | \$ 3,956,613 |
| 22 | Department of Technology Services (DTS) | 1 | \$ 26,404,524 |
| 23 | Emergency Management and Homeland Security (OEMHS) | 1 | \$ 5,601,880 |
| 24 | Ethics Commission (ECM) | 1 | \$ 13,500 |
| 25 | Office of Human Resources (OHR) | 1 | \$ 18,130,977 |
| 26 | State's Attorney (SAO) | 1 | \$ 284,458 |
| | | 164 | \$ 1,415,581,192 |

Risk Rating

We computed a raw risk rating (unadjusted for missing responses) for each of the 26 departments/offices for which questionnaire results were analyzed (see Appendix III). Raw risk rating scores are shown by risk category and in total.

Using the methodology explained in the Approach and Methodology section of this report, we adjusted the raw risk rating for the six departments that were missing a response to one or more of the risk categories. The adjusted risk rating as compared to the raw risk rating by department/office is provided in Appendix IV.

Charts 3, 4, and 5 below present the adjusted risk ratings by department/office, grouped by revenue size. Chart 2 is a legend explaining the risk ratings and groupings.

Chart 2 – Risk Rating Chart Legend

RISK RATING CHART LEGEND

Adjusted (Adj.) Risk Rating column – the color behind the number represents high (red), medium (yellow), or low (green) risk.

Risk Rating Categories:

 High Risk  Medium Risk  Low Risk  No Response

Revenue Groupings:

Revenue > \$70M – departments with Oracle reported revenue greater than 5% of total revenue from all in-scope departments (approximately \$1.4B).

Revenue \$14M to \$70M – departments with Oracle reported revenue greater than 1%, but less than 5%, of total revenue from all in-scope departments.

Revenue < \$14M – departments with Oracle reported revenue of 1% or less of total revenue from all in-scope departments.

Chart 3 – Montgomery County Cash Receipts Risk Rating Grouped by Revenue > \$70M (High Revenue)

| | FY2013 Revenue (Oracle) | Adj. Risk Rating | Collections | Deposits | Recording | General Control Environment |
|---|-------------------------|------------------|-------------|----------|-----------|-----------------------------|
| Department of General Services (DGS) | \$89,893,218 | 16.3 | Yellow | Red | Red | Red |
| Fire & Rescue Service (FRS) | \$233,797,726 | 13.9 | Red | Red | Green | Yellow |
| Department of Transportation (MCDOT) | \$219,698,563 | 11.5 | Yellow | Yellow | Yellow | Yellow |
| Department of Environmental Protection (DEP) | \$133,080,434 | 10.7 | Yellow | Red | Green | Yellow |
| Department of Liquor Control (LIQ) | \$258,908,078 | 10.5 | Green | Yellow | Yellow | Yellow |
| Department of Housing & Community Affairs (HCA) | \$88,701,825 | 9.5 | Green | Red | Green | Yellow |
| Department of Health & Human Services (HHS) | \$104,800,351 | 8.6 | Green | Yellow | Yellow | Yellow |

Chart 4 – Montgomery County Cash Receipts Risk Rating Grouped by Revenue \$14M to \$70M (Medium Revenue)

| | FY2013 Revenue (Oracle) | Adj. Risk Rating | Collections | Deposits | Recording | General Control Environment |
|---|-------------------------|------------------|-------------|----------|-----------|-----------------------------|
| Department of Technology Services (DTS) | \$26,404,524 | 15.1 | Grey | Red | Grey | Yellow |
| Department of Finance (FIN) | \$66,807,403 | 13.7 | Yellow | Red | Yellow | Yellow |
| Office of Human Resources (OHR) | \$18,130,977 | 12.1 | Grey | Red | Grey | Yellow |
| Department of Police (POL) | \$38,892,364 | 9.2 | Yellow | Yellow | Yellow | Yellow |
| Department of Recreation (REC) | \$44,751,903 | 8.1 | Yellow | Yellow | Yellow | Green |
| Department of Permitting Services (DPS) | \$44,918,729 | 8.1 | Green | Red | Yellow | Green |

Chart 5 – Montgomery County Cash Receipts Risk Rating Grouped by Revenue < \$14M (Low Revenue)

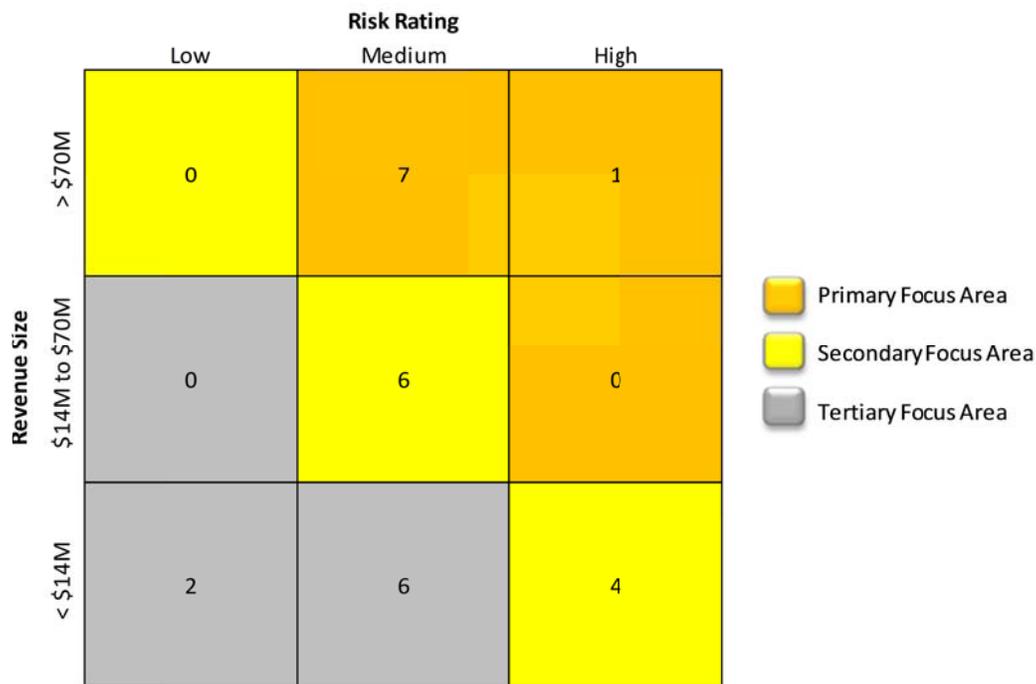
| | FY2013 Revenue (Oracle) | Adj. Risk Rating | Collections | Deposits | Recording | General Control Environment |
|--|-------------------------|------------------|-------------|----------|-----------|-----------------------------|
| County Executive's Office (CEX) | \$158,077 | 20.4 | Red | Red | Grey | Red |
| State's Attorney (SAO) | \$284,458 | 20.0 | Green | Red | Yellow | Red |
| Circuit Court (CCT) | \$3,191,312 | 15.4 | Yellow | Red | Grey | Red |
| Ethics Commission (ECM) | \$13,500 | 15.4 | Red | Red | Grey | Green |
| Sheriff's Office (SHF) | \$2,225,489 | 15.0 | Yellow | Yellow | Red | Yellow |
| Community Engagement Cluster (CEC) | \$7,267,754 | 15.0 | Yellow | Red | Yellow | Red |
| County Attorney's Office (CAT) | \$536,386 | 15.0 | Green | Red | Red | Red |
| Department of Economic Development (DED) | \$4,160,670 | 13.5 | Red | Red | Yellow | Yellow |
| Board of Elections (BOE) | \$3,320 | 13.0 | Green | Red | Yellow | Yellow |
| Department of Public Libraries (LIB) | \$6,163,479 | 10.8 | Yellow | Red | Yellow | Yellow |
| Emergency Management and Homeland Security (OEMHS) | \$5,601,880 | 10.7 | Grey | Red | Yellow | Green |
| Community Use of Public Facilities (CUPF) | \$13,232,160 | 6.5 | Green | Yellow | Yellow | Green |
| Department of Correction & Rehabilitation (COR) | \$3,956,613 | 3.0 | Green | Green | Yellow | Green |

Risk Rating Observations

Upon review of the risk rating results, the majority of departments/offices received an adjusted risk rating score of medium. This means that most departments/offices reported having approximately 60-80% of the basic internal controls in the area of cash receipts.

Chart 6 is a heat map showing the number of departments/offices by revenue size and risk rating. Departments/offices falling into the orange highlighted quadrants would have the greatest risk and should be the primary focus area for the Department of Finance. The next level of risk is shown by the yellow highlighted quadrants, followed by the lowest risk areas in the gray highlighted quadrants.

Chart 6 – Heat Map – Number of Departments/Offices by Revenue Size and Risk Rating



When looking specifically at the risk categories, well over 50% of all departments/offices (18 out of 26), regardless of revenue size, have a high risk rating for the deposits risk category. Low revenue departments appear to have higher risk ratings in the collections process, as well as in general internal control. Risk level appears to be evenly spread across all revenue sizes for the recording process.

Other Metrics

Activity (Revenue) Code Coverage

All cash receipts entered in the Montgomery County general ledger (Oracle) are required to be coded with an Activity Code. This is sometimes also referred to as a Revenue Code. The Department of Finance provided a current listing of all Activity Codes at the time of distribution of the cash receipts questionnaire, which was included in one of the questionnaire questions.

We noted that 107 out of 110 active Activity Codes (97%) were represented by questionnaire responses. Twenty of these 107 Activity Codes were checked only by 1-2 questionnaire respondents from the Department of Finance who checked almost all Activity Codes. Only 3 Activity Codes were not checked by any questionnaire respondent. These Activity Codes are: DTS – Cable; DTS – CIO; and MCF&R Restricted Donations.

Based on this data, it appears that responses to the cash receipts questionnaire cover the majority of the various types of revenue or cash receipts collected by Montgomery County.

Policies/Procedures by Department and Process

As seen in Table 10, approximately two thirds of respondents reported having written policies and procedures related to the cash receipts processes of collection, deposits, and recording.

Table 10 – Questionnaire Respondents Responding “Yes” to Policies/Procedures

| | Total Respondents | Responded "Yes" to having written policies/procedures | Percentage |
|--------------------|-------------------|---|------------|
| Collections | 135 | 89 | 66% |
| Deposits | 115 | 77 | 67% |
| Recording | 95 | 65 | 68% |

There were two departments that responded that the departments do not have, or they are not aware of, written policies or procedures for any of the three cash receipts processes of collection, deposits, or recording. An additional three departments responded that the departments had written policies or procedures for collections and deposits, but did not have written policies or procedures for recording. All other departments had at least 1 respondent confirm there were written policies and/or procedures over the collections, deposit, and recording processes for their department.

It is important for organizations to maintain and communicate documented policies and procedures to all staff involved in a respective process to ensure steps are being carried out completely and consistently in accordance with the expectations of the organization.

Training by Department and Process

Approximately 70% of respondents reported having received training in the cash receipts process in which they participate (see Table 11). The majority of training occurred less than once per year. The most common response was that training was received only once.

Table 11 – Questionnaire Respondents Responding “Yes” to Training

| | Total Respondents | Responded "Yes" to having been trained | % Trained | Trained once per year or more | Trained less than once per year |
|-------------|-------------------|--|-----------|-------------------------------|---------------------------------|
| Collections | 135 | 99 | 73% | 24 | 75 |
| Deposits | 115 | 85 | 74% | 22 | 63 |
| Recording | 95 | 60 | 63% | 17 | 43 |

Best practice recommends regular training, generally annually, to communicate and reinforce policies and procedures.

Segregation of Duties

Out of the 164 questionnaire responses received, 119 respondents (or 73%) indicated that they participated in at least two of the three cash receipts processes. Generally, segregation of duties should be maintained between receiving, depositing, and recording cash receipts. There were some respondents who communicated that they were taking the questionnaire on behalf of several people or on behalf of the entire department, which were not the instructions given; however, this could account for some of these conflicts. In addition, although some people may take part in two or more of the processes, it is possible that there are proper controls in place to still ensure proper segregation of duties exists.

Departments that process cash receipts on behalf of other departments

Table 12 shows which departments or offices indicated they process cash receipts on behalf of other departments or offices with details of number of respondents and number of additional departments.

Table 12 – Departments That Process Cash Receipts on Behalf of Other Departments

| | DEPARTMENT/OFFICE | Questionnaire Respondents | # Respondents who process for other departments | Additional Departments (in addition to own) |
|---|---|---------------------------|---|---|
| 1 | County Attorney's Office (CAT) | 2 | 2 | 18 |
| 2 | Department of Environmental Protection (DEP) | 11 | 1 | 4 |
| 3 | Department of Finance (FIN) | 18 | 8 | 35 |
| 4 | Department of General Services (DGS) | 10 | 2 | 4 |
| 5 | Department of Health & Human Resources (HHS) | 23 | 3 | 11 |
| 6 | Department of Housing & Community Affairs (HCA) | 2 | 1 | 1 |
| 7 | Department of Liquor Control (LIQ) | 21 | 2 | 2 |
| 8 | Department of Permitting Services (DPS) | 6 | 3 | 4 |
| 9 | Sheriff's Office (SHF) | 4 | 1 | 1 |

Departments that collect cash (bills and coins)

There is a higher risk associated with the collection of physical cash (bills and coins) than any other type of cash receipt collected (check, wire transfer, etc.). We noted that 91 out of 135 respondents to the collection questions (67%) collect cash. These individuals represent 18 out of 23 departments that

responded to the collection section of the questionnaire. A detailed list of collection section respondents are listed in Table 13 below, including how many responded that they collect physical cash.

Table 13 – Collection Section Respondents Collecting Cash (Bills and Coins)

| DEPARTMENT/OFFICE | | Collection Section Respondents | Count of Respondent Collecting Cash |
|-------------------|---|--------------------------------|-------------------------------------|
| 1 | Department of Health & Human Services (HHS) | 20 | 18 |
| 2 | Department of Liquor Control (LIQ) | 20 | 18 |
| 3 | Department of Police (POL) | 12 | 12 |
| 4 | Department of Recreation (REC) | 10 | 10 |
| 5 | Department of Finance (FIN) | 10 | 6 |
| 6 | Department of Transportation (MCDOT) | 9 | 6 |
| 7 | Department of Public Libraries (LIB) | 5 | 4 |
| 8 | Department of Environmental Protection (DEP) | 8 | 3 |
| 9 | Sheriff's Office (SHF) | 4 | 3 |
| 10 | Board of Elections (BOE) | 2 | 2 |
| 11 | County Attorney's Office (CAT) | 2 | 2 |
| 12 | Circuit Court (CCT) | 1 | 1 |
| 13 | Community Engagement Cluster (CEC) | 2 | 1 |
| 14 | County Executive's Office (CEX) | 1 | 1 |
| 15 | Department of Correction & Rehabilitation (COR) | 1 | 1 |
| 16 | Department of Economic Development (DED) | 3 | 1 |
| 17 | Department of General Services (DGS) | 8 | 1 |
| 18 | State's Attorney (SAO) | 1 | 1 |
| 19 | Community Use of Public Facilities (CUPF) | 2 | 0 |
| 20 | Department of Housing & Community Affairs (HCA) | 2 | 0 |
| 21 | Department of Permitting Services (DPS) | 5 | 0 |
| 22 | Ethics Commission (ECM) | 1 | 0 |
| 23 | Fire & Rescue Service (FRS) | 6 | 0 |
| | | 135 | 91 |

Montgomery County currently does not have county-wide policies and procedures related to the handling of physical cash. Policies and procedures are developed at the individual department level.

Timeliness of Recording

With respect to how quickly deposits are recorded, approximately 64% of the 95 recording section respondents indicated they recorded deposits into the department’s application in 2 days or less; 5% recorded deposits between 2 and 3 days after deposit; while 10% recorded deposits 4 or more days after deposit. Twenty percent of respondents did not know the length of time between deposit and recording in the department’s application.

Approximately 28% of the 95 recording section respondents indicated deposits were recorded into the general ledger (Oracle) in 2 days or less; 4% of deposits were recorded between 2 and 3 days after

receipt; while 13% of deposits were recorded 4 or more days after deposit. 55% of respondents did not know the length of time between deposit and recording in Oracle.

With respect to lapses in recording deposits, numerous respondents indicated the cause was due to employee's being on vacation or sick and the delay was usually about 1 week. A few individuals noted delays of 2 weeks, 1 month, 2 months, and 6 months.

Knowledge/Data Transfer

In addition to the contents of this report, the Department of Finance has been provided with the following information from the cash receipts questionnaire:

- Data in a Microsoft Access Database including all responses from 164 respondents included in questionnaire results. This allows for further drill down by department and question, as well as answer comparison, using queries and reports.
- Original raw data of all questionnaire responses in Microsoft Excel.
- Microsoft Excel workbook used to produce all metrics.
- Documented policies and/or procedures provided by questionnaire respondents (15 policies/procedures representing 9 departments/offices).

Conclusion

As the County continues to centralize its cash receipts processes, the Department of Finance recognizes the need for enterprise-wide policies and procedures. Documented and communicated policies and procedures establish formal requirements and expectations for ensuring that funds received by the County are appropriately collected, safeguarded, and recorded in the official books and records. Without enterprise-wide guidelines, procedures developed at the department/office level may not include important controls and sufficient oversight of the cash receipts process.

The County's assessment of the cash receipts process should be based on an accepted internal control framework, such as the Committee of Sponsoring Organizations' (COSO) *Internal Control – An Integrated Framework*. The COSO Framework was updated in 2013 and can be used at both the entity level and to support operational areas within an organization. This framework is built on five key components of an effective system of internal control, including: control environment, risk assessment, control activities, information and communication, and monitoring. More information about the COSO Framework can be found on the COSO website at <http://www.coso.org/>.

The development of the policies and procedures around cash receipts, especially in an organization as large and decentralized as Montgomery County is a challenging task. The results of the questionnaire can help management develop a realistic, risk based plan for developing, implementing and sustaining a well-controlled cash receipts process. A detailed project plan and approach, including a timeline with milestones, subtasks and deliverables will be critical.

Recommendations

We recommend the Director of the Department of Finance:

1. Use the information gathered from the questionnaire to develop a long-term project plan and approach with milestones and deliverables to strengthen the cash receipts process and internal controls across Montgomery County.

The plan should include:

- a. Development of County-wide policies to ensure all departments, offices, and programs are adopting the applicable internal controls consistently.
- b. Implementation of basic internal controls expected in a cash receipts process to ensure the correct controls are in place and operating effectively.
- c. Recognition that more detailed procedures will be needed at the department/office level to address specific requirements.

2. Develop and implement the long-term plan in Recommendation 1 using an internal control framework, such as the COSO's Internal Control – An Integrated Framework.

3. Work with the various departments/offices to help them adapt a more detailed approach to meet their individual requirements. In doing so, the Director should leverage information gathered by the questionnaire to identify departments that may already have strong processes and controls to help other departments/offices enhance and document their processes.

4. Additionally in developing the plan consider these results from the questionnaire:

- a. Approximately 70% of respondents reported receiving training in the cash receipts process. The most common response was that training was received only once. When the Department of Finance develops a high-level, County-wide policy for cash receipts processing, this policy can be the basis for an annual training, in addition to any other department specific training programs that are deemed necessary.
- b. Montgomery County currently does not have County-wide policies and procedures related to the handling of physical cash. Policies and procedures are developed at the individual department level. Due to the increased risk around collection of physical cash, as well as the large number of departments that appear to collect physical cash, we recommend the Department of Finance determine if basic, standard County-wide procedures around the collection of physical cash need to be established and required of all departments or offices that collect, or otherwise handle, physical cash.
- c. When looking specifically at the risk categories within the risk rating, well over 50% of all departments/offices (18 out of 26), regardless of revenue size, have a high risk rating for the deposits risk category. We recommend the Department of Finance look into the deposits process across the County and determine if basic training or guidelines on internal control can be shared with all departments.
- d. Approximately 10% of the 95 recording section respondents indicated they recorded deposits into the department's application 4 or more days after deposit. Approximately 13% of the 95

recording section respondents indicated deposits were recorded into the general ledger (Oracle) 4 or more days after deposit. The recommended County-wide policy related to cash receipts should include guidelines on the timeliness of collection, deposit, and recording in the general ledger.

- e. Risk ratings were determined for four risk categories: Collections, Deposits, Recording, and General Internal Control. Six of 26 departments/offices did not provide responses to cover one or both of the collections and recording risk categories. Therefore, questionnaire results and risk rating information used to make decisions regarding process improvements may be incomplete or inaccurate.
- f. Out of the 164 questionnaire responses received, 119 respondents (or 73%) indicated that they participated in at least 2 of the 3 cash receipts processes. This may indicate that proper segregation of duties is not in place in some or all of these departments.
- g. Upon requesting that each department provide a detailed breakdown of FY2013 estimated revenue by revenue code (or similar category utilized by the department for reporting purposes), two departments reported amounts that were significantly different from the Oracle revenue reported. These were the Department of Permitting Services and County Attorney's Office, which both process cash receipts on behalf of other departments/offices. Without understanding the volume of cash receipts processed by each department, the long-term plan may lack the proper focus.

Comments and MCIA Evaluation

We provided the Department of Finance with a draft of this report for review and comment on January 9, 2014 and they responded in a memo on January 23, 2014. The Finance department concurred with the recommendations of Internal Audit and intends use the results of this report to help identify and implement improvements to County-wide cash receipts policies and procedures.

The full response memo appears in Appendix V of this report.

Appendix I – Questionnaire Recipients and Respondents by Department/Office

| DEPARTMENT/OFFICE | | Questionnaire Recipients | Questionnaire Respondents |
|-------------------|--|--------------------------|---------------------------|
| 1 | Department of Health & Human Services (HHS) | 29 | 23 |
| 2 | Department of Liquor Control (LIQ) | 34 | 21 |
| 3 | Department of Finance (FIN) | 28 | 17 |
| 4 | Department of Police (POL) | 13 | 12 |
| 5 | Department of Transportation (MCDOT) | 18 | 12 |
| 6 | Department of Environmental Protection (DEP) | 14 | 11 |
| 7 | Department of General Services (DGS) | 18 | 10 |
| 8 | Department of Recreation (REC) | 15 | 10 |
| 9 | Fire & Rescue Service (FRS) | 10 | 8 |
| 10 | Department of Public Libraries (LIB) | 8 | 7 |
| 11 | Department of Permitting Services (DPS) | 9 | 6 |
| 12 | Department of Economic Development (DED) | 5 | 4 |
| 13 | Sheriff's Office (SHF) | 4 | 4 |
| 14 | Board of Elections (BOE) | 2 | 2 |
| 15 | Community Engagement Cluster (CEC) | 2 | 2 |
| 16 | Community Use of Public Facilities (CUPF) | 2 | 2 |
| 17 | County Attorney's Office (CAT) | 2 | 2 |
| 18 | Department of Housing & Community Affairs (HCA) | 4 | 3 |
| 19 | Circuit Court (CCT) | 2 | 1 |
| 20 | County Executive's Office (CEX) | 1 | 1 |
| 21 | Department of Correction & Rehabilitation (COR) | 1 | 1 |
| 22 | Department of Technology Services (DTS) | 1 | 1 |
| 23 | Emergency Management and Homeland Security (OEMHS) | 3 | 1 |
| 24 | Ethics Commission (ECM) | 1 | 1 |
| 25 | Office of Human Resources (OHR) | 2 | 1 |
| 26 | State's Attorney (SAO) | 1 | 1 |
| | | 229 | 164 |

Appendix II – Risk Rating Questions

| Question ID | Section | Question | Answer | Risk Rating |
|------------------------------|--------------------------|---|---|-------------|
| Q5 | General Internal Control | Please select which part(s) of the receipts process you are involved in. | Collections | 0 |
| | | | Deposits | 0 |
| | | | Recording | 0 |
| | | | None of the above | 0 |
| | | | Collections, Deposits, Recording | 1 |
| | | | Collections, Deposits | 1 |
| | | | Collections, Recording | 1 |
| | | | Deposits, Recording | 1 |
| | | | Collections, Deposits, Recording, None of the above | 1 |
| | | | Collections, Deposits, None of the above | 1 |
| | | | Collections, Recording, None of the above | 1 |
| | | | Deposits, Recording, None of the above | 1 |
| | | | Collections, None of the above | 0 |
| | | | Deposits, None of the above | 0 |
| Recording, None of the above | 0 | | | |
| QM8a | General Internal Control | Please select the process(es) which have either departmental and/or County wide documented (written) policies/procedures. - Collections | Yes | 0 |
| | | | No | 1 |
| | | | I do not know | 1 |
| | | | I do not perform | 0 |
| QM8b | General Internal Control | Please select the process(es) which have either departmental and/or County wide documented (written) policies/procedures. - Deposits | Yes | 0 |
| | | | No | 1 |
| | | | I do not know | 1 |
| | | | I do not perform | 0 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|--------------------------|---|------------------------------|-------------|
| QM8c | General Internal Control | Please select the process(es) which have either departmental and/or County wide documented (written) policies/procedures. - Recording | Yes | 0 |
| | | | No | 1 |
| | | | I do not know | 1 |
| | | | I do not perform | 0 |
| Q10 | General Internal Control | Do you have access to review receipts process policies and procedures at any time? | Yes | 0 |
| | | | No | 1 |
| Q13 | General Internal Control | When handling cash (bills and coins), is cash secured from public view? | Yes | 0 |
| | | | No | 1 |
| | | | I have not ever handled cash | 0 |
| QM14a | General Internal Control | Which receipts processes have you been trained to perform? - Collections | Trained | 0 |
| | | | Not trained | 1 |
| | | | I do not perform | 0 |
| QM14b | General Internal Control | Which receipts processes have you been trained to perform? - Deposits | Trained | 0 |
| | | | Not trained | 1 |
| | | | I do not perform | 0 |
| QM14c | General Internal Control | Which receipts processes have you been trained to perform? - Recording | Trained | 0 |
| | | | Not trained | 1 |
| | | | I do not perform | 0 |
| Q15 | General Internal Control | Are you trained on how to handle a situation if you suspect fraud or theft, including who to report suspected fraud or theft to? | Yes | 0 |
| | | | No | 1 |
| Q93 | General Internal Control | Do you have a unique (i.e. not shared) user ID and password for access to systems related to receipts? | Yes | 0 |
| | | | No | 1 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|-------------|---|--------------------------|-------------|
| Q27 | Collections | Is evidence of the receipt provided to the person making payment and, if so, are they numbered? | No receipt | 1 |
| | | | Yes and pre-numbered | 0 |
| | | | Yes but not pre-numbered | 1 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|-------------|--|---|-------------|
| Q30 | Collections | How do you verify the amounts received are correct? | I compare to an invoice | 0 |
| | | | I compare to a fee schedule | 0 |
| | | | I calculate the amount due at the time of collection | 0 |
| | | | I compare to customer account balance information | 0 |
| | | | I verify the amounts received are correct in another way explained in the comment field below | 0 |
| | | | I do not verify that amounts are correct | 1 |
| Q31 | Collections | Are amounts of receipts collected recorded in a log or list and, if so, how often? | Yes, on the day received | 0 |
| | | | Yes, within a few days of receipt | 1 |
| | | | Sometimes | 1 |
| | | | No | 1 |
| Q32 | Collections | Is more than one person involved in the collection and logging of amounts received? | Yes | 0 |
| | | | No | 1 |
| Q33 | Collections | Are copies of checks or other monetary documentation maintained? | Yes | 0 |
| | | | No | 1 |
| Q34 | Collections | Are checks restrictively endorsed immediately upon receipt? | Yes | 0 |
| | | | No | 1 |
| Q35 | Collections | Are receipts locked and secure when you are not in the immediate area? | Yes | 0 |
| | | | No | 1 |
| Q38 | Collections | Do people other than persons responsible for collecting or depositing receipts have access to stored receipts? | Yes | 1 |
| | | | No | 0 |
| Q44 | Collections | If receipts are not deposited, but transferred to another department for further processing, are the amounts sent compared to the amounts received to make sure the amounts are equal? | Yes | 0 |
| | | | No | 1 |
| | | | Funds are not transferred | 0 |
| Q47 | Collections | Is there a backup to perform your collection function in the event you are absent? | Yes (someone who is trained in the process) | 0 |
| | | | Yes (someone who is NOT trained in the process) | 1 |
| | | | There is not a backup | 1 |
| | | | I do not know | 1 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|----------|---|--|-------------|
| Q51 | Deposits | Are cash counts, deposit slips, or any other steps reviewed by someone other than the preparer? | Yes | 0 |
| | | | No | 1 |
| | | | Sometimes | 1 |
| Q52 | Deposits | Are pre-numbered deposit slips used? | Yes | 0 |
| | | | No | 1 |
| Q54 | Deposits | What determines when deposits are made? | I deposit each day receipts are received | 0 |
| | | | I deposit when I reach a certain dollar threshold (my threshold is \$500 or less) | 0 |
| | | | I deposit when I reach a certain dollar threshold (my threshold is greater than \$500) | 1 |
| | | | I deposit on a set interval (my interval is weekly or more frequent) | 0 |
| | | | I deposit on a set interval (my interval is less frequent than weekly) | 1 |
| | | | I deposit when I have time to go to the bank | 1 |
| | | | I do not know | 1 |
| Q56 | Deposits | How are deposits secured during transit? | Armored car/truck | 0 |
| | | | Security guard escort | 0 |
| | | | Locked deposit bag | 0 |
| | | | Unlocked deposit bag | 1 |
| | | | They are not secured | 1 |
| | | | I do not know | 1 |
| | | | None of the above | 1 |
| Q58 | Deposits | Please select which types of proof of deposit are maintained. | None | 1 |
| | | | Bank confirmation listing each item and total deposit | 1 |
| | | | Bank confirmation listing total deposit | 0 |
| | | | I do not know | 1 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|----------|---|--|-------------|
| Q59 | Deposits | How often are deposit totals reconciled to collection logs? | Same day as the deposit | 0 |
| | | | Within a few days of the deposit | 0 |
| | | | Weekly | 0 |
| | | | Monthly | 1 |
| | | | Quarterly | 1 |
| | | | Annually | 1 |
| | | | They are not reconciled | 1 |
| | | | Cash receipts collection logs are not maintained | 1 |
| Q60 | Deposits | Are reconciliations of deposit totals to collection logs reviewed by someone other than the preparer? | I do not know | 1 |
| | | | Yes | 0 |
| | | | No | 1 |
| Q62 | Deposits | Is there a backup to perform your deposit function in the event you are absent? | Sometimes | 1 |
| | | | Yes (someone who is trained in the process) | 0 |
| | | | Yes (someone who is NOT trained in the process) | 1 |
| | | | There is not a backup | 1 |
| | | | I do not know | 1 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|-----------|---|---|-------------|
| Q67 | Recording | When recording receipts, do you receive supporting documentation for each individual receipt? If so, do you review the supporting documentation for reasonableness? | I receive supporting documentaion and review for reasonableness | 0 |
| | | | I receive supporting documentaion, but do not review | 1 |
| | | | I do not receive supporting documentation | 1 |
| Q68 | Recording | Are the receipts you record reviewed by another individual? | Yes | 0 |
| | | | No | 1 |
| Q70 | Recording | Have you ever recorded (or requested the Department of Finance to record) receipts as miscellaneous revenue? | Yes | 1 |
| | | | No | 0 |

| Question ID | Section | Question | Answer | Risk Rating |
|-------------|-----------|---|---|-------------|
| Q71 | Recording | Have you ever recorded (or requested the Department of Finance to record) receipts directly to the General Ledger via Journal Entry? | Yes | 1 |
| | | | No | 0 |
| Q77 | Recording | Do you reconcile amounts recorded within the department system to amounts on bank records or other bank reports (i.e. bank statements)? | Yes | 0 |
| | | | No | 1 |
| Q78 | Recording | Do you reconcile amounts recorded within Oracle to amounts recorded within the department system? | Yes | 0 |
| | | | No | 1 |
| Q79 | Recording | Are reconciliations in the recording process reviewed by someone other than the preparer? | Yes | 0 |
| | | | No | 1 |
| | | | Sometimes | 1 |
| Q81 | Recording | Is there a backup to perform your recording function in the event you are absent? | Yes (someone who is trained in the process) | 0 |
| | | | Yes (someone who is NOT trained in the process) | 1 |
| | | | There is not a backup | 1 |
| | | | I do not know | 1 |

Appendix III – Raw Risk Rating by Risk Category and Department/Office (unadjusted for no response)

| | DEPARTMENT/OFFICE | Collections | Deposits | Recording | General Internal Control | Raw Risk Rating Score |
|----|--|-------------|----------|-------------|--------------------------|-----------------------|
| 1 | State's Attorney (SAO) | 2.0 | 5.0 | 3.0 | 10.0 | 20.0 |
| 2 | County Executive's Office (CEX) | 6.0 | 5.0 | NO RESPONSE | 7.0 | 18.0 |
| 3 | Department of General Services (DGS) | 3.1 | 4.2 | 3.4 | 5.6 | 16.3 |
| 4 | Community Engagement Cluster (CEC) | 3.5 | 4.0 | 2.0 | 5.5 | 15.0 |
| 5 | County Attorney's Office (CAT) | 2.0 | 3.5 | 4.5 | 5.0 | 15.0 |
| 6 | Sheriff's Office (SHF) | 2.8 | 3.0 | 5.0 | 4.3 | 15.0 |
| 7 | Fire & Rescue Service (FRS) | 5.2 | 3.4 | 1.5 | 3.9 | 13.9 |
| 8 | Department of Finance (FIN) | 3.2 | 3.7 | 2.6 | 4.2 | 13.7 |
| 9 | Department of Economic Development (DED) | 5.0 | 3.5 | 2.0 | 3.0 | 13.5 |
| 10 | Board of Elections (BOE) | 2.0 | 5.0 | 2.0 | 4.0 | 13.0 |
| 11 | Circuit Court (CCT) | 4.0 | 4.0 | NO RESPONSE | 5.0 | 13.0 |
| 12 | Ethics Commission (ECM) | 6.0 | 5.0 | NO RESPONSE | 2.0 | 13.0 |
| 13 | Department of Transportation (MCDOT) | 2.7 | 3.0 | 2.1 | 3.7 | 11.5 |
| 14 | Department of Public Libraries (LIB) | 2.2 | 3.7 | 2.6 | 2.3 | 10.8 |
| 15 | Department of Environmental Protection (DEP) | 2.3 | 3.6 | 1.3 | 3.5 | 10.7 |
| 16 | Department of Liquor Control (LIQ) | 1.8 | 3.1 | 2.9 | 2.8 | 10.5 |
| 17 | Department of Technology Services (DTS) | NO RESPONSE | 6.0 | NO RESPONSE | 4.0 | 10.0 |
| 18 | Department of Housing & Community Affairs (HCA) | 2.0 | 4.0 | 1.0 | 2.5 | 9.5 |
| 19 | Department of Police (POL) | 2.6 | 1.8 | 1.7 | 3.1 | 9.2 |
| 20 | Department of Health & Human Services (HHS) | 1.2 | 2.2 | 2.1 | 3.2 | 8.6 |
| 21 | Department of Permitting Services (DPS) | 0.8 | 4.0 | 2.0 | 1.3 | 8.1 |
| 22 | Department of Recreation (REC) | 2.3 | 1.8 | 2.0 | 2.0 | 8.1 |
| 23 | Emergency Management and Homeland Security (OEMHS) | NO RESPONSE | 5.0 | 2.0 | 1.0 | 8.0 |
| 24 | Office of Human Resources (OHR) | NO RESPONSE | 4.0 | NO RESPONSE | 3.0 | 7.0 |
| 25 | Community Use of Public Facilities (CUPF) | 0.5 | 2.0 | 2.0 | 2.0 | 6.5 |
| 26 | Department of Correction & Rehabilitation (COR) | 0.0 | 0.0 | 2.0 | 1.0 | 3.0 |

Appendix IV – Raw Risk Rating and Adjusted Risk Rating by Department/Office

| | DEPARTMENT/OFFICE | Raw Risk Rating | Adjusted Risk Rating |
|----|--|-----------------|----------------------|
| 1 | County Executive's Office (CEX) | 18.0 | 20.4 |
| 2 | State's Attorney (SAO) | 20.0 | 20.0 |
| 3 | Department of General Services (DGS) | 16.3 | 16.3 |
| 4 | Circuit Court (CCT) | 13.0 | 15.4 |
| 5 | Ethics Commission (ECM) | 13.0 | 15.4 |
| 6 | Department of Technology Services (DTS) | 10.0 | 15.1 |
| 7 | Community Engagement Cluster (CEC) | 15.0 | 15.0 |
| 8 | County Attorney's Office (CAT) | 15.0 | 15.0 |
| 9 | Sheriff's Office (SHF) | 15.0 | 15.0 |
| 10 | Fire & Rescue Service (FRS) | 13.9 | 13.9 |
| 11 | Department of Finance (FIN) | 13.7 | 13.7 |
| 12 | Department of Economic Development (DED) | 13.5 | 13.5 |
| 13 | Board of Elections (BOE) | 13.0 | 13.0 |
| 14 | Office of Human Resources (OHR) | 7.0 | 12.1 |
| 15 | Department of Transportation (MCDOT) | 11.5 | 11.5 |
| 16 | Department of Public Libraries (LIB) | 10.8 | 10.8 |
| 17 | Department of Environmental Protection (DEP) | 10.7 | 10.7 |
| 18 | Emergency Management and Homeland Security (OEMHS) | 8.0 | 10.7 |
| 19 | Department of Liquor Control (LIQ) | 10.5 | 10.5 |
| 20 | Department of Housing & Community Affairs (HCA) | 9.5 | 9.5 |
| 21 | Department of Police (POL) | 9.2 | 9.2 |
| 22 | Department of Health & Human Services (HHS) | 8.6 | 8.6 |
| 23 | Department of Permitting Services (DPS) | 8.1 | 8.1 |
| 24 | Department of Recreation (REC) | 8.1 | 8.1 |
| 25 | Community Use of Public Facilities (CUPF) | 6.5 | 6.5 |
| 26 | Department of Correction & Rehabilitation (COR) | 3.0 | 3.0 |

Appendix V – Responses to Review County Finance



Isiah Leggett
County Executive

Joseph F. Beach
Director

DEPARTMENT OF FINANCE

MEMORANDUM

January 23, 2015

TO: Larry Dyckman, Internal Auditor

FROM: Joseph F. Beach, Director
Department of Finance

SUBJECT: Response to Recommendations from Cash Receipts Informational Questionnaire of Executive and Judicial Branch Departments

Enclosed please find the Department of Finance response to the Cash Receipts Informational Questionnaire of Executive and Judicial Branch Departments issued by Internal Audit.

We appreciate the cooperation and assistance of Internal Audit and the audit firm working with you, in developing and conducting the survey process, and providing analysis of the results. We believe the results provide relevant and useful information to the Department, in carrying out our authority and responsibilities under Section 214 of the County Charter and Chapter 20 of the County Code, and in our goal of continuing to identify and implement improvements to County-wide collection, deposit, recording, and related reconciliation processes.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, at 240-777-8828, or Lenny Moore, Controller, at 240-777-8802.

Attachment

cc: Karen Q. Hawkins, Chief Operating Officer, Department of Finance
Lenny Moore, Controller, Department of Finance
Heidi Metzger, Accounts Receivable Manager, Department of Finance

Office of the Director

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**Finance Response to Recommendations
Developed as a Result of the Cash Receipts Information Questionnaire
Of Executive and Judicial Branch Departments
Conducted by the Office of Internal Audit**

Dated January 2015

Recommendation:

1. Use the information gathered from the questionnaire to develop a long-term project plan and approach with milestones and deliverables to strengthen the cash receipts process and internal controls across Montgomery County.

The plan should include:

- a. Development of County-wide policies to ensure all departments, offices, and programs are adopting the applicable internal controls consistently.
- b. Implementation of basic internal controls expected in a cash receipts process to ensure the correct controls are in place and operating effectively.
- c. Recognition that more detailed procedures will be needed at the department/office level to address specific requirements.

Finance Response:

The Finance Department concurs with this recommendation.

Under Section 214 of the County Charter and Chapter 20 of the County Code, the Department of Finance is the custodian of all County funds, and has responsibilities relating to collection, deposit, accounting, and reporting of County funds and revenues. Finance intends to use the results of this report to help in our goal of continuing to identify and implement improvements to County-wide cash receipt policies and procedures in those areas stipulated by County Charter and County Code.

To accomplish those goals, Finance will develop a long term plan that will incorporate the areas recommended – County-wide policies and procedures, basic internal control requirements, and guidance/assistance on departmental-level procedures. We anticipate the plan will include development of a County-wide Administrative Procedure (AP), supplemented by detailed procedures and guidelines, similar to AP 6-7 Information Resources Security; the Department has already begun this process. The plan will acknowledge, and the AP and supplementary detailed procedures are planned to include, guidance to departments in determining how to apply the AP and detailed procedures to their specific requirements.

Recommendation:

2. Develop and implement the long-term plan in Recommendation 1 using an internal control framework, such as the COSO's Internal Control – An Integrated Framework.

Finance Response:

The Finance Department concurs with this recommendation and intends to incorporate an internal control framework such as COSO in the policies and procedures to be developed.

Recommendation:

3. Work with the various departments/offices to help them adapt a more detailed approach to meet their individual requirements. In doing so, the Director should leverage information gathered by the questionnaire to identify departments that may already have strong processes and controls to help other departments/offices enhance and document their processes.

Finance Response:

The Finance Department concurs with this recommendation. As part of the plan under Recommendation 1, Finance will leverage the information gathered by the survey to develop consistent, County-wide policies and procedures that can be used by all departments to meet their individual requirements. The information will also be used, along with the considerations listed in Recommendation 4, to develop as part of the plan, department specific training based on need and County-wide cash receipt training to be offered through the OHR Learning Management system. The formal County-wide training will incorporate the Administrative Policy and procedures, and is therefore anticipated to be developed and implemented when these are in place.

Recommendation:

4. Additionally in developing the plan consider these results from the questionnaire:
- a. Approximately 70% of respondents reported receiving training in the cash receipts process. The most common response was that training was received only once. When the Department of Finance develops a high-level, County-wide policy for cash receipts processing, this policy can be the basis for an annual training, in addition to any other department specific training programs that are deemed necessary.
 - b. Montgomery County currently does not have County-wide policies and procedures related to the handling of physical cash. Policies and procedures are developed at the individual department level. Due to the increased risk around collection of physical cash, as well as the large number of departments that appear to collect physical cash, we recommend the Department of Finance determine if basic, standard County-wide procedures around the collection of physical cash need to be established and required of all departments or offices that collect, or otherwise handle, physical cash.

- c. When looking specifically at the risk categories within the risk rating, well over 50% of all departments/offices (18 out of 26), regardless of revenue size, have a high risk rating for the deposits risk category. We recommend the Department of Finance look into the deposits process across the County and determine if basic training or guidelines on internal control can be shared with all departments.
- d. Approximately 10% of the 95 recording section respondents indicated they recorded deposits into the department's application 4 or more days after deposit. Approximately 13% of the 95 recording section respondents indicated deposits were recorded into the general ledger (Oracle) 4 or more days after deposit. The recommended County-wide policy related to cash receipts should include guidelines on the timeliness of collection, deposit, and recording in the general ledger.
- e. We noted several areas where follow up with the individual department(s) may be beneficial to better understanding missing information and the overall processing of cash receipts for the County. We recommend the Department of Finance follow up with respective departments in the following areas:
- f. Risk ratings were determined for four risk categories: Collections, Deposits, Recording, and General Internal Control. Six of 26 departments/offices did not provide responses to cover one or both of the collections and recording risk categories. Therefore, questionnaire results and risk rating information used to make decisions regarding process improvements may be incomplete or inaccurate.
- g. Out of the 164 questionnaire responses received, 119 respondents (or 73%) indicated that they participated in at least 2 of the 3 cash receipts processes. This may indicate that proper segregation of duties is not in place in some or all of these departments.
- h. Upon requesting that each department provide a detailed breakdown of FY2013 estimated revenue by revenue code (or similar category utilized by the department for reporting purposes), two departments reported amounts that were significantly different from the Oracle revenue reported. These were the Department of Permitting Services and County Attorney's Office, which both process cash receipts on behalf of other departments/offices. Without understanding the volume of cash receipts processed by each department, the long-term plan may lack the proper focus.

Finance Response:

The Finance Department concurs with these considerations and plans, as previously noted, to develop County-wide policies, procedures, and training in the areas of cash handling, proper bank deposit procedures, timeliness of receipt recordation, and internal controls such as segregation of duties. Training will be department specific first, based on the risk rating, and then regularly scheduled training will be developed after the more formalized policies and procedures are in place. The Accounts Receivable Section is aware that some departments process cash receipts on behalf of other departments and that information will be taken into account in coordination with each department.