

**Performance Audit 16-02:
Learning Academy Collections**

July 2016

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

July 13, 2016

To: Mayor Andy Berke
City Council Members

Subject: YFD: Learning Academy Collections Audit (Report #16-02)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of collections at the Youth and Family Development Department's Learning Academy. Our audit found that fees were not always billed timely, resulting in nonpayment by the State for several months of service. We also found fees were not always collected in accordance with applicable codes or policy and collections were not properly safeguarded. The process for tracking billings, payments and delinquencies is inadequate. State fees were reduced based on issues that appear to have developed due to management responsibility for the Learning Academy not being clearly assigned.

Similar findings have been reported in previous audits of YFD functional areas. Learning Academy operational policies need to be strengthened, communicated and monitored. Management should provide training and assignment of all responsibility areas for staff.

The Learning Academy staff follow appropriate policies for the transfer of funds between employees and all receipts written were in sequential order and traced to collection reports.

We thank the management and staff of the Youth and Family Development Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: **Audit Committee Members**
 Stacy Richardson, Chief of Staff
 Maura Sullivan, Chief Operating Officer
 Lurone Jennings, Youth and Family Development Administrator
 Daisy Madison, Chief Financial Officer

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2016 Audit Agenda. The objectives of this audit were to determine if:

- Fees were collected in accordance with City and State policy and guidelines;
- Revenues, receipts and delinquencies are properly recorded, with appropriate follow up on delinquencies;
- State of Tennessee is properly billed for Child Care Certificate and CACFP revenue.

BACKGROUND

Youth & Family Development's division of Human Services provides programs and services that focus on Smarter Students and Stronger Families. The services alleviate poverty and provide opportunities for the most at-risk youth and disadvantaged families in the city of Chattanooga.

The division's Youth Learning Academy located at the 12th Street site serves children from birth to four (4) years of age. The Learning Academy helps children develop early language, reading, math, and writing skills. Parent fees, state Child Care Certificates, and the Child Adult Care Food Program (CACFP) supplement the funding of the Academy. The Learning Academy operates in collaboration with the Head Start/Early Head Start program.

The Academy is licensed and accredited by the National Association for Education of Young Children (NAEYC). The program is licensed to serve 225 children (ages 6 weeks to 12 years). Staff consists of a Center Supervisor, Administrative Clerk, 10 Teachers, and 1 Dietary Worker.

The City's Child Care fees are \$90 per week. If the family qualifies for the state Child Care Certificate program, the State determines the subsidy paid for each child. The parent is responsible for the balance. Payment for Child Care Certificates is received monthly by ACH.

Financial Information

Exhibit I: Learning Academy Revenues

Fiscal Year	2011	2012	2013	2014	2015	2016*
Child Care Fees	\$ 50,870	\$ 65,825	\$ 54,553	\$ 47,762	\$ 31,741	\$ 22,453
Child Care Certificate Funds	487,112	381,508	308,941	213,486	67,098	25,062
CACFP Funds	93,533	93,308	94,815	75,580	57,159	36,208
Total Revenues	\$ 631,514	\$ 540,641	\$458,309	\$336,827	\$155,998	\$ 83,723

Source: Oracle Financials, *As reported 6/30/16

FINDINGS AND RECOMMENDATIONS

Management should provide appropriate job training.

Our audit of the collection process identified the most likely causes of deficiency were the lack of training and written policies and procedures. We interviewed the administrative staff and found the following areas need improvement:

- Job Duties and Responsibilities:** Both the Center Supervisor and Clerk positions were filled during the past 18 months. The Center Supervisor, hired in January 2015, was unaware of job responsibilities related to the oversight of the Learning Academy. The Clerk II, hired in August 2015, received minimal job training.
- Cash Collection Training:** The primary cash collection clerk received several days of on-the-job training (from the previous clerk) on the collection process. The individual serving as backup has received no training. Neither employee was provided the Finance Department’s Cash Collection Policy.
- State Programs Training:** A primary responsibility of the Clerk position is to collect data and request reimbursements for the State programs. The Clerk was unaware of the responsibility and received no training from **management** or the previous clerk.
- State Child Care Regulations:** As a licensed Child Care facility, the Learning Academy should follow State regulations developed by the Department of Human Services. Neither the current Center Supervisor, nor the current Clerk knew they were to follow these regulations.

Proper training and clear policies and procedures are necessary to develop efficient and capable employees. The lack of training created an inefficient operation which places the Learning Academy at risk of sanctions and/or reduced funding. The sanctions could result in disruption to families reliant on the program.

Recommendation 1:

We recommend YFD management develop written policies and procedures for all administrative functions of the Learning Academy. All relevant codes, policies, regulations and contract/grant requirements should be covered in the policy. Detailed procedures should be included for key job functions. These policies and procedures should be provided to all current staff. New, transferred, or employees assigned new duties should be provided written policies prior to taking on new duties.

Auditee Response:

We concur with the findings and recommendation. Applicable city and state regulations have been identified and will be included in policies that we are currently developing. The policies will be thoroughly explained to employees upon completion, and a copy of the policies kept in the Learning Academy office for easy employee review.

Recommendation 2:

We recommend all YFD employees charged with the collection of funds be provided with a copy of the City's *Finance Policies & Procedures Collections* manual.

Auditee Response:

We concur with the findings and recommendation. All employees involved in cash collections have been provided copies of the Finance Collection Manual.

Recommendation 3:

We recommend YFD management provide pertinent training to all Learning Academy employees. All Learning Academy employees should be made aware of and provided easy access to state regulations for reference as needed.

Auditee Response:

We concur with the findings and recommendation. Written child care policies will be made available to all employees, as well as access to the state website, ensuring any modifications are available to

employees. The administrative clerk has been scheduled to receive training on Head Start procedures, as well as CACFP training.

Recommendation 4:

We recommend YFD management ensure job descriptions are well written and employees are clearly assigned responsibilities. Individual staff members should be assigned duties to ensure compliance with all regulations, rules and policies.

Auditee Response:

We concur with the findings and recommendation. All job descriptions will be rewritten to specify state child care regulations must be followed by employees.

Improvements in the collection process will ensure revenues are properly recorded and safeguarded.

All payments from individuals are made in person in the Learning Academy office. Pre-numbered receipts are issued for all funds collected. The City accepts cash, money order or checks. The Clerk does not stamp "For Deposit Only" on the money orders or checks.

Daily collections are stored in an unlocked desk drawer until the end of day. At days end funds are locked in a portable lockbox. After several days, the accumulated collections are transferred to the YFD Senior Accounting Clerk. A transfer form to document the transfer is completed and retained by both parties. The Senior Accounting Clerk prepares the collection reports. After review and approval by the YFD Fiscal Analyst the collections are delivered to Treasury.

All receipts written during the audit period were reviewed. We verified the funds were recorded and deposited with the City Treasurer. We found receipts to be in sequential order with fewer than five voided.

Per Tennessee Code Annotated (TCA) 6-56-111 (a), money should be deposited and posted no more than three working days after collection. During the audit period 21 % of collections were deposited late. The timing of deposits was primarily due to the administrative employee's lack of knowledge of State law and City policy.

Recommendation 5:

We recommend the Learning Academy transfer funds daily to the YFD Senior Accounting Clerk.

Auditee Response:

We concur with the findings and recommendation. This recommendation has been put in place. Learning Academy collections are deposited daily.

Recommendation 6:

We recommend funds be kept in a safe or lockbox securely attached to a fixture.

Auditee Response:

We concur with the findings and recommendation. This recommendation has been put in place, with all funds stored in a safe in the Learning Academy office.

Recommendation 7:

We recommend YFD management request a “For Deposit Only” stamp from Treasury. All checks and money orders should be immediately stamped, as required by policy.

Auditee Response:

We concur with the findings and recommendation. A stamp with “for deposit only” has been received. Each check/money order received will be stamped upon receipt.

Loss of revenues from State and Federal childcare and food programs resulting from poor management oversight.

The State of Tennessee offers a Child Care assistance program, called Child Care Certificate (CCC), for children of low income participating in the Families First program. Families must apply for the program through the State’s Department of Human Services (DHS) to determine eligibility.

As a licensed provider, the City can participate in the program and receive reimbursement from DHS when caring for qualified children. The rates received are dependent upon the age group and location (county) of the provider. In addition, providers can earn Star Quality ratings during the inspection process. Providers that earn a star quality rating receive bonus funds of 5% to 20% in addition to the base rate.

The Child and Adult Care Food Program (CACFP) is a federally funded program that provides reimbursement for eligible meals that are served to participants who meet age and income requirements. All payments are based on annual rates established by the U.S. Department of Agriculture.

We reviewed the support documentation and the current process required to obtain reimbursements. Although we found minimal discrepancies, the current manual process is prone to errors. In addition, the lack of management oversight of these processes could result in lost revenues. Developing a data entry spreadsheet to track meals and hours could improve productivity and reduce calculation errors.

Recommendation 8:

We recommend YFD management consider developing a more automated methodology to track information for the state programs. Management should perform regular reviews of data for accuracy and anomalies.

Auditee Response:

We concur with the findings and recommendation. A spreadsheet will be developed to minimize manual calculations in this process.

Late filing of reimbursement claims could result in lost revenue.

The position charged with billing the state for Child Care Certificate and CACFP programs turned over in August 2015. From that time, no reimbursement requests were submitted to the State until January 2016.

According to the current employee, management did not instruct her to request reimbursements until January. At that time, the Fiscal Analyst requested logins to the state system. As previously stated, the Clerk received no training on how to track and report for state programs.

The Child Care Certificate program allowed the City to request reimbursements for all the missing periods. The City received these funds in March 2016.

Unlike the Child Care Certificate program, the CACFP denied payment for four of the five unbilled months. Per federal regulation “A final claim for reimbursement shall be postmarked and/or submitted to the state agency not later than 60 days following the last day of the full month covered by the claim.” August 2015 was billed and collected after the logins were received in early 2016.

Recommendation 9:

We recommend YFD management develop written procedures for collection of state revenues and train new employees prior to assigning

related duties. We also recommend the Fiscal Analyst conduct a monthly review of revenues to identify anomalies.

Auditee Response:

We concur with the finding and recommendation. YFD administration has mailed a letter to the CACFP program requesting a waiver of the sixty day limit for unbilled payments (average income approximately \$4,000 monthly). No response has been received to-date.

A process has been implemented in which the Fiscal Analyst will perform monthly comparison of budgeted figures versus actual collections. On occasion, the Deputy Director will spot check.

Recommendation 10:

We recommend account access (logins) pertinent to a position be transferred/disabled upon separation of employment and access be acquired for new employees no later than when they assume the job.

Auditee Response:

We concur with the findings and recommendation. This recommendation will be included in the procedures manual under development and put in place immediately.

Decrease in funding as a result of lower star rating.

The Learning Academy was downgraded from a 3 star to a 2 star program after a state audit in 2015. The result is an approximate 4% decrease in state funding for the Child Care Certificate program. The downgrade was related to multiple factors, including deficient program assessment and professional development.

As a result of the audit, management provided the relevant regulations to employees. Awareness of the regulations and implementation of previous recommendations should help alleviate these issues.

Formal policies are needed for accounts receivable.

The Clerk was not given information on the location of client records at the time she was hired. She did not receive instruction on how to record billings, payments or track corresponding delinquencies. To track outstanding balances she developed an excel spreadsheet. Per the clerk's calculations, the outstanding balances as of February 2016 are \$3,968.

We reviewed the spreadsheet and found it to be poorly designed. The spreadsheet does not show amounts billed and collected, but rather

weekly amounts outstanding with a manually calculated balance to the side.

We also reviewed a month of billing sheets and found them to have been posted properly. However, we did not perform tests on outstanding balances as of August 2015. Per the clerk, previous letters mailed for past due amounts were found in files and used to record beginning outstanding balances. The balances due could be misstated.

The clerk has no formal guidelines to follow when payments become delinquent. Parents with an outstanding balance on their Child Care accounts are sent a letter monthly detailing the amount owed. However, no further collection actions are taken.

Recommendation 11:

We recommend YFD management consider implementing a computerized billing/receivables system.

Auditee Response:

We concur with the findings and recommendation. A child care billing system, Childcare +, had been purchased previously. It will be implemented by 10/1/2016. The administrative clerk will attend a training session in early December 2016 to receive full training on operation of the program.

Recommendation 12:

We recommend YFD management develop and implement a written delinquent account policy. The policy should address actions to be taken for past due accounts. We recommend the policy be vetted by the City's Chief Financial Officer and City Attorney to ensure all applicable laws and City policies are followed.

Auditee Response:

We concur with the findings and recommendation. A written delinquency policy will be in place by 8/31/2016. In the interim, each new parent will be provided a child care agreement (including fees), poverty guidelines to help determine if they qualify for the Childcare Certificate program. Parents with delinquent balances will be sent a delinquency letter. Those parents will be asked to sign a repayment agreement.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers Learning Center collections from March 1, 2015 to February 29, 2016. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from Learning Academy employees, City of Chattanooga financial data and State of Tennessee websites. Original records, as well as copies, were used as evidence and verified through physical examination.

To evaluate the sufficiency of the Learning Academy collections we viewed all collection reports and receipts for the audit period, interviewed multiple employees and reviewed systems and schedules in use by the Learning Academy staff.

To develop our recommendations we relied upon city collection policy and procedures, *Internal Control and Compliance Manual for Tennessee Municipalities*, as well as relevant sections of Tennessee Code Annotated.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City financial system. The City financial system has previously been subjected to testing and deemed reliable. We did not rely on any systems developed by Learning Academy employees to meet the audit's objectives.

We conducted this performance audit from April 2016 to June 17, 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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