



ARLINGTON
VIRGINIA

Internal Audit Report: Fire Billing, Receipts and Funds Handling

Fire Department

Report Date: February 28, 2023

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TRANSMITTAL LETTER



February 28, 2023

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Fire Chief, Arlington County Fire Department

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Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present this internal audit report for the County’s Fire Department (“FIR”) Billing, Receipts and Funds Handling processes and procedures. Our report is organized in the following sections:

| | |
|--------------------------------|---|
| Executive Summary | This section includes a background summary of the function, the objectives and approach, and a detailed description of the observation(s) noted during this audit. Identified with each observation is the recommended action(s), and management’s corrective action plan, including the responsible party and estimated completion date. |
| Background | This section provides an overview of the function and pertinent operational control points and related compliance requirements. |
| Objectives and Approach | The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach. |
| Process Maps | This section illustrates process maps, which depict data flow, key control points and any identified gaps. |

As described in our objectives and approach outlined on pages 13 and 14 of this report, the observations noted are based on our analysis of the processes, documents, records, and information requested and provided to us by the County. This internal audit focused on evaluating the soundness of internal control policies over the Fire Department’s billings for services and permits, accounts receivable, and funds handling processes to safeguard assets, and on reviewing compliance with County policies. We offer no assurances that schemes or fraudulent activities have not been or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting RSM US LLP with this internal audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

EXECUTIVE SUMMARY

Background

Funds handling involves those activities performed to process cash, checks and credit cards in the ordinary course of business. The County’s funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. Internal controls are necessary to safeguard assets, prevent mishandling of funds, and to accurately record receipts to safeguard the reliability of financial reporting.

The County’s Department of Management and Finance (“DMF”) developed a county-wide *Funds Handling Policy* (effective November 1, 2017 and addendum added December 15, 2020). The purpose was to define and implement a standard policy and process for the administration of internal controls for funds collection necessary to prevent mishandling of County funds and to safeguard and protect the County and its employees. The policy established procedures for the collection, custody, reporting and deposit of funds for all departments in the County.

The Arlington County Fire Department (“FIR”) provides certain revenue-generating services to the community, including ambulance transport services, fire prevention services, fire systems testing, and miscellaneous services such as providing copies of patient care reports and special event coordination. In fiscal year (“FY”) 2022, FIR reported \$7.4M in revenue. Of the \$7.4M in revenue, \$1.4M was received by FIR via physical check/cash receipts and/or ACH wire transfers for fire prevention services, fire systems testing, and certain miscellaneous permits and fees. The scope of this audit includes only the \$1.4M in funds received (handled) by FIR. The other \$6M in revenue was collected by the County Treasury for ambulance services and grant revenues, which is out of the scope of this internal audit. In February 2023, RSM completed a contract compliance audit of Digitech Contract 20-071-RFP. This contract covers the ambulance billing services for the County. The Fire Department is currently addressing these report recommendations. As of October 31, 2022 (the date the accounts receivable report was provided by FIR), there was \$687k in accounts receivable related to the revenue accounts in the scope of this audit, \$464k of which relate to services provided prior to June 30, 2022.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

Objective and Scope

The objective of this internal audit was to assess whether the system of internal controls over FIR’s billings for services, including related accounts receivable, and funds handling processes are adequate and appropriate to ascertain the accuracy of billings and receipts and to safeguard County assets.

As part of this internal audit, we conducted various walkthrough discussions of FIR’s processes and procedures as they relate to billing, collections and funds handling for each operating revenue account for which cash and cash equivalents are received by FIR, as detailed in this report, as well as the CodePal system utilized by FIR. As part of our review, FIR provided general ledger summary reports and detailed revenue transaction reports that we utilized in our sample selections and testing.

We selected a sample of 53 transactions (from a population of approximately 1,700) covering the in-scope revenue accounts and obtained the supporting documentation for the invoice, cash receipt, and deposit, to determine whether each transaction was processed in accordance with County policy. Additionally, FIR provided reports of accounts receivable as of October 31, 2022, which we utilized to assess past due / aging receivables.

The audit period was July 1, 2021 through June 30, 2022 (FY 2022), and limited to specific revenue accounts for which FIR receives and handles customer payments for services (i.e., permit fees, fire systems testing fees, patient care report fees, other miscellaneous fees). See page 9 for revenue account listing.

Fieldwork was performed August 2022 through January 2023.

Number of Observations by Risk Rating

(See page 15 for rating definitions)

| | High | Moderate | Low |
|--|------|----------|-----|
| Internal Audit: Fire Department Billing, Receipts and Funds Handling | 3 | 2 | - |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations

| Observation | 1. Accounts Receivable | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------|---|-------------------|----------------------|-------------------|----------------------------|-------------------|--|-------|---------|---------|---------|---------|----------------------------|--------------------------|----------|-----------|-----------|-----------|-----------|-----------|----------------------|--------|---------|--------|---------|---------|---------|--------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| High | <p>As of October 31, 2022, FIR had \$687k in accounts receivable / uncollected fees, dating back to FY 2019 related to fire prevention services and fire systems testing. (For reference, outstanding accounts receivable for FY 2022 in the amount of \$217,009 is 16% of the revenue collected for these accounts in FY 2022, \$1.36M). Based on discussions, it is our understanding that invoices processed and sent to customers are not entered into the County's accounts receivable system (PRISM) because the CodePal software system utilized by FIR is not integrated with PRISM. Year-end journal entries could be made in the County's general ledger to properly record accounts receivable at year-end, but that is not currently FIR's process.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2"></th> <th colspan="5" style="background-color: #808080; color: white;">Fiscal year invoiced</th> <th rowspan="2">Total</th> </tr> <tr> <th style="background-color: #008000; color: white;">FY 2019</th> <th style="background-color: #008000; color: white;">FY 2020</th> <th style="background-color: #008000; color: white;">FY 2021</th> <th style="background-color: #008000; color: white;">FY 2022</th> <th style="background-color: #008000; color: white;">FY 2023 (through 10/31/22)</th> </tr> </thead> <tbody> <tr> <td>Fire prevention services</td> <td style="text-align: right;">\$ 8,636</td> <td style="text-align: right;">\$ 13,036</td> <td style="text-align: right;">\$ 14,174</td> <td style="text-align: right;">\$ 18,836</td> <td style="text-align: right;">\$ 11,485</td> <td style="text-align: right;">\$ 66,166</td> </tr> <tr> <td>Fire systems testing</td> <td style="text-align: right;">25,434</td> <td style="text-align: right;">114,453</td> <td style="text-align: right;">71,496</td> <td style="text-align: right;">198,174</td> <td style="text-align: right;">211,199</td> <td style="text-align: right;">620,755</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$ 34,070</td> <td style="text-align: right;">\$ 127,489</td> <td style="text-align: right;">\$ 85,670</td> <td style="text-align: right;">\$ 217,009</td> <td style="text-align: right;">\$ 222,684</td> <td style="text-align: right;">\$ 686,921</td> </tr> </tbody> </table> <p>FIR's current process is to query unpaid invoices and review accounts receivable from the CodePal system periodically as staff time permits, but on no set schedule or cadence. From our discussions with FIR, it is our understanding that:</p> <ul style="list-style-type: none"> FIR does not have formal department-level procedures related to the handling of past due accounts receivable (monitoring, tracking, and following-up on past due accounts receivable). FIR personnel noted that during the COVID-19 pandemic (approximately April 2020 through December 2021), the department experienced late invoicing or lack of invoicing for services and/or lack of payment from customers. During FY 2022, letters were sent out to customers with past-due accounts to try to collect on those accounts. FIR noted that they have been able to collect on some of those accounts, while other accounts were out of business or did not yet respond. Past due accounts are not actively pursued through collections activities. <p>The County is at greater risk of revenue loss from untimely and/or unpaid fees. In addition, financial statements may be inaccurately stated.</p> | | Fiscal year invoiced | | | | | Total | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 (through 10/31/22) | Fire prevention services | \$ 8,636 | \$ 13,036 | \$ 14,174 | \$ 18,836 | \$ 11,485 | \$ 66,166 | Fire systems testing | 25,434 | 114,453 | 71,496 | 198,174 | 211,199 | 620,755 | Total | \$ 34,070 | \$ 127,489 | \$ 85,670 | \$ 217,009 | \$ 222,684 | \$ 686,921 |
| | Fiscal year invoiced | | | | | Total | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 (through 10/31/22) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fire prevention services | \$ 8,636 | \$ 13,036 | \$ 14,174 | \$ 18,836 | \$ 11,485 | \$ 66,166 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fire systems testing | 25,434 | 114,453 | 71,496 | 198,174 | 211,199 | 620,755 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | \$ 34,070 | \$ 127,489 | \$ 85,670 | \$ 217,009 | \$ 222,684 | \$ 686,921 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Recommendation | <p>We recommend that FIR establish procedures relating to accounts receivable monitoring, including expectations on the tracking, reconciling of accounts receivable, and follow-up procedures on past due accounts.</p> <p>CodePal should be integrated with PRISM so that accounts receivable related to fire prevention services and fire systems testing due to the County can be appropriately tracked, monitored, and pursued. Alternatively, year-end journal entries could be made in the County's general ledger to properly record accounts receivable at year-end.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 1. Accounts Receivable - continued |
|--------------------------|--|
| Management's Action Plan | <p>Response: Short Term: The Fire Prevention Office (FPO) has established a bi-monthly process for identifying and addressing past due invoices. This process has improved since the audit period due to full staffing. During March 2023, the FPO was authorized to process past due invoice through Treasury for collections. There is no intent to integrate CodePal and PRISM; CodePal does not have the current capability to integrate into PRISM and we are moving to a new business solution. Manual year-end journal entries will be made for the fiscal year ending 2023 to record the receivables if the new business solution is not implemented by this time.</p> <p>Mid Term: The FPO is in the latter stages of a solicitation process for a new business solution that will greatly enhance the ability to invoice, track, and process fees. This system will allow for integration with other County systems, including PRISM, for accounts receivable that have not been available to the FPO in past years.</p> <p>Responsible Party: Battalion Chief, Fire Prevention</p> <p>Target Date: Short Term: May 31, 2023 Mid Term: November 30, 2023</p> |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 2. Segregation of Duties |
|--|---|
| <p style="text-align: center;">High</p> | <p>According to the <i>Funds Handling Policy</i> (effective November 1, 2017 and addendum added December 15, 2020):</p> <p><i>“An individual should not have responsibility for more than one of the following cash handling components: collecting, depositing, disbursement, and reconciling. If staffing is not sufficient to allow separation of duties, there should be regular oversight by another employee, or a review and approval process must occur. At a minimum, reconciliations must be done by an independent individual not involved with collecting, depositing and disbursements.”</i></p> <p>We noted that FIR lacks appropriate segregation of duties over funds handling. While funds handling responsibilities are generally assigned to personnel based on the type of invoice/receipt, FIR employees are often responsible for more than one of the relevant cash handling components (collecting, depositing, and reconciling). For example, the FIR Administrative Technician II is often responsible for collecting checks from the lockbox (collecting) and creating the deposit for funds related to permits (depositing). Additionally, employees fill in for each other during absences, as needed. There is not an individual completely independent of the funds handling process to complete reconciliations.</p> <p>Without proper segregation of duties surrounding funds handling, there is an increased likelihood that errors, misappropriation of funds, or other types of irregularities may occur without being detected and corrected in a timely manner.</p> |
| <p>Recommendation</p> | <p>We recommend that FIR evaluate current practices to effectively segregate duties. Ideally, no one person should have responsibility for collecting, depositing, recording and reconciling of transactions. At a minimum, employees who handle cash should not be assigned duties for invoicing or updating accounts receivable records or general ledger records, including reconciliations.</p> |
| <p>Management’s Action Plan</p> | <p>Response: These responsibilities have been segregated for more than 1 year. There have been situations, due to staffing levels, when employees had to take on additional responsibilities causing a temporary lapse in the segregation of duties. The Chief Fire Marshal is independent of all processes and conducts weekly reconciliations.</p> <p>Mid Term: The FPO is working with Treasury to secure a third party “Lockbox” service that will process checks received. This will eliminate the need for FPO staff to physically handle funds.</p> <p>Responsible Party: Battalion Chief, Fire Prevention</p> <p>Target Date: November 30, 2023</p> |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 3. Invoicing |
|---|---|
| <p style="text-align: center; background-color: red; color: white; padding: 5px;">High</p> | <p><u>Detailed testing to supporting documentation</u> In assessing the completeness and timeliness of invoices and follow-up for non-payment, we reviewed a sample of 53 transactions and noted the following:</p> <ul style="list-style-type: none"> • For 10 of the 25 fire systems testing invoices sampled, we noted that the System Test Billable Hours Timesheets supporting the hours charged did not agree to the invoiced hours, ranging from 0.25 hour variance to 20.5 hour variance. The variances noted on the invoices were both higher and lower than the Billable Hours Timesheet support. • For 3 of the 25 fire systems testing invoices sampled, we noted that the System Test Billable Hours Timesheet supporting the hours charged was not retained by FIR. As such, we were unable to determine the accuracy/completeness of the invoices. • For 3 of the 18 fire permit invoices sampled, we noted that the rate charged to the customer did not agree to the permit rate sheet. The net variance was \$85 in underbilled fees. <p>From our discussions with FIR, it is our understanding that many fire systems testing inspections require numerous days and/or more than one inspector. As such, the variances noted, most of which were hours invoiced in excess of timesheets, may be related to missing timesheets from certain days or inspectors from FIR’s files, not necessarily incorrect billing. However, we cannot substantiate that claim.</p> <p>It is our understanding that FIR does not have formal department-level procedures related to the timeliness of invoicing customers, including required supporting documentation that should be retained for invoices.</p> <p><u>Invoice processing</u> The current invoicing processes are manual in nature (i.e., for permits, invoices are generated in CodePal, and the associated fees are manually entered. For miscellaneous revenues, invoices are created in Microsoft Word.), which is an inefficient use of FIR’s time and may result in clerical errors. Invoices and the associated inspections or permit requests are not sequentially numbered to allow for identification of missing invoices.</p> <p>Additionally, FIR is receiving physical checks that oftentimes do not have the associated invoice number indicated on the check, resulting in FIR funds handling personnel having to research and manually match checks received to invoices. Through our discussions with FIR personnel, FIR self-reported that there are inconsistencies in how different personnel in the department utilize CodePal fields, which exacerbates the manual matching of receipts to invoices. This process is inefficient and may result in clerical errors.</p> <p>Inefficiencies and lack of guidance over these activities at the department level increases the risk of invoice errors and unbilled/uncollected revenues due to the County.</p> |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 3. Invoicing - continued |
|---------------------------------|--|
| Recommendation | We recommend that FIR: <ul style="list-style-type: none"> Establish procedures relating to customer invoicing once services are provided by the County, as well as expectations on the record retention of supporting documentation for all invoices sent. Evaluate implementing a system-driven invoice process, which will sequentially number invoices for ease of tracking. CodePal fields should be clearly defined for consistent use across the department. |
| Management's Action Plan | <p>Response: Mid Term 1: The FPO is in the latter stages of a solicitation process for a new business solution that will replace the current system. The new business model will rely on a 3rd party contractor who collects and processes customer reports and County fees. Inspections will continue to be conducted on an hourly basis and for additional services rendered; the solution below will better support and ensure accuracy. Paper and/or manual recordkeeping will be eliminated through the new software solution which will reduce and/or eliminate discrepancies and lost time sheets.</p> <p>Mid Term 2: The FPO is in the latter stages of a solicitation process for a new business solution that will greatly enhance the ability to invoice, track, and process fees. This system will allow for integration with other County solutions for accounts receivable.</p> <p>Responsible Party: Battalion Chief, Fire Prevention</p> <p>Target Date: November 30, 3023</p> |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 4. Safeguarding of Funds |
|--|---|
| <p>Moderate</p> | <p>The <i>Funds Handling Policy</i> states that during business hours, funds received must be kept in locked drawers, cash registers or a safe. Funds totaling more than \$250 in any given day must be kept in locked drawers or a cash register and must be moved to a safe. All funds kept overnight must be moved into a drop safe and locked.</p> <p>We noted that FIR does utilize locked drawers for daily safeguarding of checks received. However, FIR does not have a safe and, therefore, cannot comply with the requirement to move funds into a drop safe overnight.</p> <p>Failure to make certain that funds collected are properly safeguarded may result in theft or loss of County funds.</p> |
| <p>Recommendation</p> | <p>We recommend that FIR procure a safe for overnight safeguarding of funds awaiting deposit. If procuring a safe it not an option, we recommend all funds in excess of \$250 be deposited daily.</p> |
| <p>Management's Action Plan</p> | <p>Response: A safe has been secured for these instances.</p> <p>Mid Term: The FPO will utilize a third party "Lockbox" service for all checks.</p> <p>Responsible Party: Battalion Chief, Fire Prevention</p> <p>Target Date: November 30, 2023</p> |

EXECUTIVE SUMMARY (CONTINUED)

Detailed Observations (continued)

| Observation | 5. Untimely Deposits |
|--|--|
| <p>Moderate</p> | <p>The <i>Funds Handling Policy</i> (effective November 1, 2017 and addendum added December 15, 2020), states that all funds must be deposited in the bank within 10 working days of initial receipt by the County. It also states, “A mechanism should be in place for documentation or tracking of funds received through the mail and should include the date, amount of cash received and signatures of the employees counting and verifying the cash received.” We noted the following:</p> <ul style="list-style-type: none"> For 6 receipts sampled (totaling \$39,561), we noted that the funds were not deposited in the bank within 10 working days. Untimely deposits ranged between 22 to 43 days after receipt. For 4 receipts sampled (totaling \$12,576), we noted that the initial receipt date by the County was not documented, as such, we were unable to determine the timeliness of the deposit. <p>While FIR did implement an Excel based tracking ledger (in November 2021) for incoming funds received, it was not consistently utilized to make sure deposits are timely. We discussed these transactions with FIR personnel, who noted short-staffing and/or personnel changes led to delayed deposits.</p> <p>Delayed deposits increase the risk of lost funds / deposits not being made, as well as inaccuracies in the County’s revenue recognition, including potential misappropriation of funds.</p> |
| <p>Recommendation</p> | <p>We recommend that FIR follow the County’s <i>Funds Handling Policy</i>, without exception. Additional training and/or guidance to funds handling personnel may be needed, as FIR has experienced significant staffing changes.</p> |
| <p>Management’s Action Plan</p> | <p>Response: The FPO was short staffed for several months and relied upon over time staff for processing and deposits. The staff vacancy has been filled and deposits are now completed as required by the funds handling policy.</p> <p>Responsible Party: Battalion Chief, Fire Prevention</p> <p>Target Date: Completed</p> |

EXECUTIVE SUMMARY (CONTINUED)

Process Improvement Opportunity

In addition to the observations noted above, we identified potential process enhancements for management's consideration.

1. Use of credit/debit cards or online portals for payment

Additionally, the *Funds Handling Policy* encourages the use of credit/debit cards or online portals for payment. It is our understanding that the County has online payment capabilities within other departments, and FIR would benefit from transitioning to online payments that require payors to enter the associated invoice number and/or account number to reduce the risk of mismatched payments.

Management's Response: The FPO is in the latter stages of a solicitation process for a new business solution that will greatly enhance the ability to invoice, track, and process fees. This system will allow for integration with other County solutions for accounts receivables. This will include access to the County's Paymentous system for on-line payment processing by customers.

Responsible Party: Battalion Chief, Fire Prevention

Target Date: November 30,2023

BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

Funds handling involves those activities performed to process cash transactions (cash is defined as physical cash, checks and credit cards in the ordinary course of business). The County’s funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. Internal controls are necessary to safeguard assets, prevent mishandling of funds, and to accurately record receipts to safeguard the reliability of financial reporting.

The County’s Department of Management and Finance (“DMF”) developed a county-wide *Funds Handling Policy* (effective November 1, 2017 and addendum added December 15, 2020). The purpose was to define and implement a standard policy and process for the administration of internal controls for funds collection necessary to prevent mishandling of County funds and to safeguard and protect the County and its employees. The policy established procedures for the collection, custody, reporting and deposit of funds for all departments in the County.

FIR provides certain revenue-generating services to the community, including:

Fire prevention services

Use permits, child-care permits/inspections, hazardous materials permits, assembly permits, and miscellaneous licenses, permits (i.e., tank permits, Freedom of Information Act payments).

Fire systems testing

Observation of fire protection systems (i.e., alarm/safety systems) at high rise residential buildings, office buildings, schools, hospitals, restaurants, etc.

Other miscellaneous revenue

Copies of patient care reports, special event coordination (i.e., inaugurations, marathons, festivals), and restitutions through court.

In fiscal year (“FY”) 2022, FIR reported \$7.4M in revenue. Of the \$7.4M in revenue, \$1.4M was received by FIR via physical check/cash receipts and/or ACH wire transfers for fire prevention services, fire systems testing, and certain miscellaneous permits and fees. The scope of this audit includes only the \$1.4M in funds received (handled) by FIR. The other \$6M in revenue was collected by the County Treasury for ambulance services and grant revenues, which is out of the scope of this internal audit.

| GL Account Number / Description | FY 2022 Revenue |
|--|---------------------|
| <i>Fire prevention services</i> | |
| 321900 Use/Occupancy Permits | \$ 2,140 |
| 321901 Child-Care Permits | 31,177 |
| 321903 Hazardous Materials Inspections/Per | 21,847 |
| 325914 Special Assembly Permits | 49,468 |
| 325900 Other Permits and Fees | 10,850 |
| <i>Fire systems testing</i> | |
| 325901 Systems Testing Fees | 1,242,873 |
| <i>Other miscellaneous revenue</i> | |
| 344900 Patient Care Reports | 1,853 |
| 350900 Miscellaneous Revenues | 33,570 |
| Revenue collected by FIR | 1,393,777 |
| <i>Other/out of scope revenue</i> | |
| Other ACFD revenues * | 6,036,793 |
| Total FY 2022 FIR revenue | \$ 7,430,570 |

* Notable Other FIR revenues include grant funds and ambulance transport fees for services provided and collected by a third party, which are not included in this scope of work.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

FIR collects checks/cash at the Fire Marshal's Office (ACH wire transfers are received directly into Treasury and are out of the scope of this audit). Collection points are established when a need is identified and are approved by the DMF. Once established, funds handling procedures are implemented and are monitored to make sure that receipts are properly recorded in the system of record and funds collected are properly safeguarded. Effective monitoring includes the following activities:

- Proper issuance of receipts to customer/entities and document retention by the cash collection point;
- Inspection of payment method for appropriateness and completeness, i.e., checking for counterfeits and validating a check is endorsed accurately;
- Entry of the payment in the system of record, including appropriate segregation of duties in the funds handling process;
- Preparation of a daily reconciliation and submission of the deposit;
- Verification of the deposit posting to the bank;
- Verification of appropriate entry/posting of cash receipts into the general ledger, including verification of appropriate general ledger account and ensuring posting agrees to supporting documentation; and
- Verification that proper documentation is maintained to support the process, in compliance with the document retention policy.

Billing and Funds Handling

Invoices for fire prevention services and fire systems testing are created in the FIR's CodePal system and mailed to customers. Invoices for other miscellaneous revenue are created manually in Microsoft Word and emailed to customers; manual invoices are tracked in Microsoft Excel and do not have invoice numbers. FIR collects a minimal amount of revenue for patient care reports (PCR). Payments for PCRs are typically made upfront at the time the PCR is requested (and receipts are provided upon payment); therefore, no invoices are needed/generated for PCRs. Applicable fee rates for permits, inspections and testing are approved by the County Board and posted on the County website.

Accounts receivable tracking and follow-up is manual for all invoices. FIR can query a CodePal report for unpaid invoices, which occurs on a periodic basis. FIR does not have a specific policy or procedure for accounts receivable aging/tracking or follow-up, nor is there a County-wide policy on accounts receivable collections. As of October 31, 2022 (the date the accounts receivable report was provided by FIR), there was \$687k in accounts receivable related to the revenue accounts reviewed, \$464k of which relates to services provided prior to June 30, 2022.

Invoice payments are received, typically via check (there are little to no cash transactions), into a locked mailbox and are retrieved during regular business hours by FIR personnel responsible for funds handling. FIR logs each incoming payment into a restricted-access Excel tracking ledger (which was implemented in November 2021). Dependent upon the type of service the payment relates to (fire prevention services versus fire systems testing), checks are routed to the appropriate FIR personnel to record payments in CodePal and prepare a cash receipt input form (CRIF) to send with the deposits to the Treasury. Checks are expected to be taken to Treasury no later than 10 business days of receipt. Checks are stored in locked FIR funds handling personnel offices, as needed. On a weekly basis, the Chief Fire Marshal reconciles the CodePal receipts to Treasury deposit reports.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The objective of this internal audit was to assess whether the system of internal controls over FIR's billings for services and permits, accounts receivable, and funds handling processes were adequate and appropriate for safeguarding the accuracy of billings, receipts, and the safeguarding of County assets. Various FIR personnel are responsible for billing, collections, and funds handling based on the type of service/revenue. The review was limited to those billings, accounts receivable, and funds handling for which FIR is responsible for billing and collections activities, including the following revenue accounts:

License and permit fees

- 321900 Use/occupancy permits (service provided by the Fire Marshall's Office)
- 321901 Childcare permits
- 321903 Hazardous materials inspections/permits
- 325900 Other permits and fees (i.e., food truck permits)
- 325901 System testing fees (service provided by the Fire Prevention Office)
- 325914 Special event assembly permits

Other charges

- 340605 ET3 telehealth fee (Medicare/Medicaid). It is our understanding that billing in this program is in its infancy; as such, there may or may not be activity to review as part of this internal audit. *Note: No revenue was collected for this account during FY 2022, as it is a new service. As such, there was no activity to review for this audit.*
- 344900 Patient care report fees
- 350900 Miscellaneous revenue (i.e., restitution through court)

The review did not include a review of any revenues generated by third party service providers, grant income, or revenues collected through the Treasurer's Office. Our approach consisted of the following phases:

Understanding and Documentation of the Process

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. This phase reviewed current-day processes and procedures and documented recent changes (within the last 3 months) to the department's processes, if applicable and necessary for the review. The following was performed as a part of this phase:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Conducted interviews with key personnel to obtain a detailed understanding of the in-scope process(es);
- Reviewed the applicable policies and procedures and agreements related to this project;
- Performed walkthroughs to gain an understanding of the function and assess the design of internal controls; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry, and walkthrough procedures.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to test compliance and internal controls. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. We reviewed general ledger transaction data for FY 2022 to determine sample selections. We selected a sample of 53 transactions (from a population of approximately 1,700) covering the in-scope revenue accounts and obtained the supporting documentation for the invoice, cash receipt, and deposit, to determine whether each transaction was processed in accordance with County policy. The following procedures were included, but were not limited to the following:

Billing / accounts receivable

- Assessed the billing/invoicing process and procedures associated with the applicable services and fees, including completeness and timeliness of invoices and follow-up for non-payment;
- Assessed the accounts receivable and collections process, including how uncollectible invoices are reported, tracked and monitored, as appropriate;

Funds handling

- Determined and documented the various forms used to collect revenues (e.g.: cash, checks, credit cards, EFT, etc.) at FIR facility that receives funds;
- Assessed adequacy of the receipting process;
- Assessed adequacy of the bank deposit process, including testing of the accuracy of bank account postings, if applicable;
- Assessed adequacy of recordkeeping and recording of revenue to the system of record, if applicable, and general ledger;
- Assessed safeguarding of cash/checks;
- Assessed adequacy of program credits/reimbursements;
- Assessed appropriateness of segregation of duties;
- Assessed compliance with County and FIR (if applicable) funds handling policies and procedures; and
- Reviewed records of overages/shortages and monitoring, as applicable.

Reporting

At the conclusion of this audit, we vetted the facts of this internal audit with FIR. The draft report was submitted to DMF and FIR for review. An exit meeting was held with DMF and FIR to formally review and discuss the draft report and modify accordingly.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

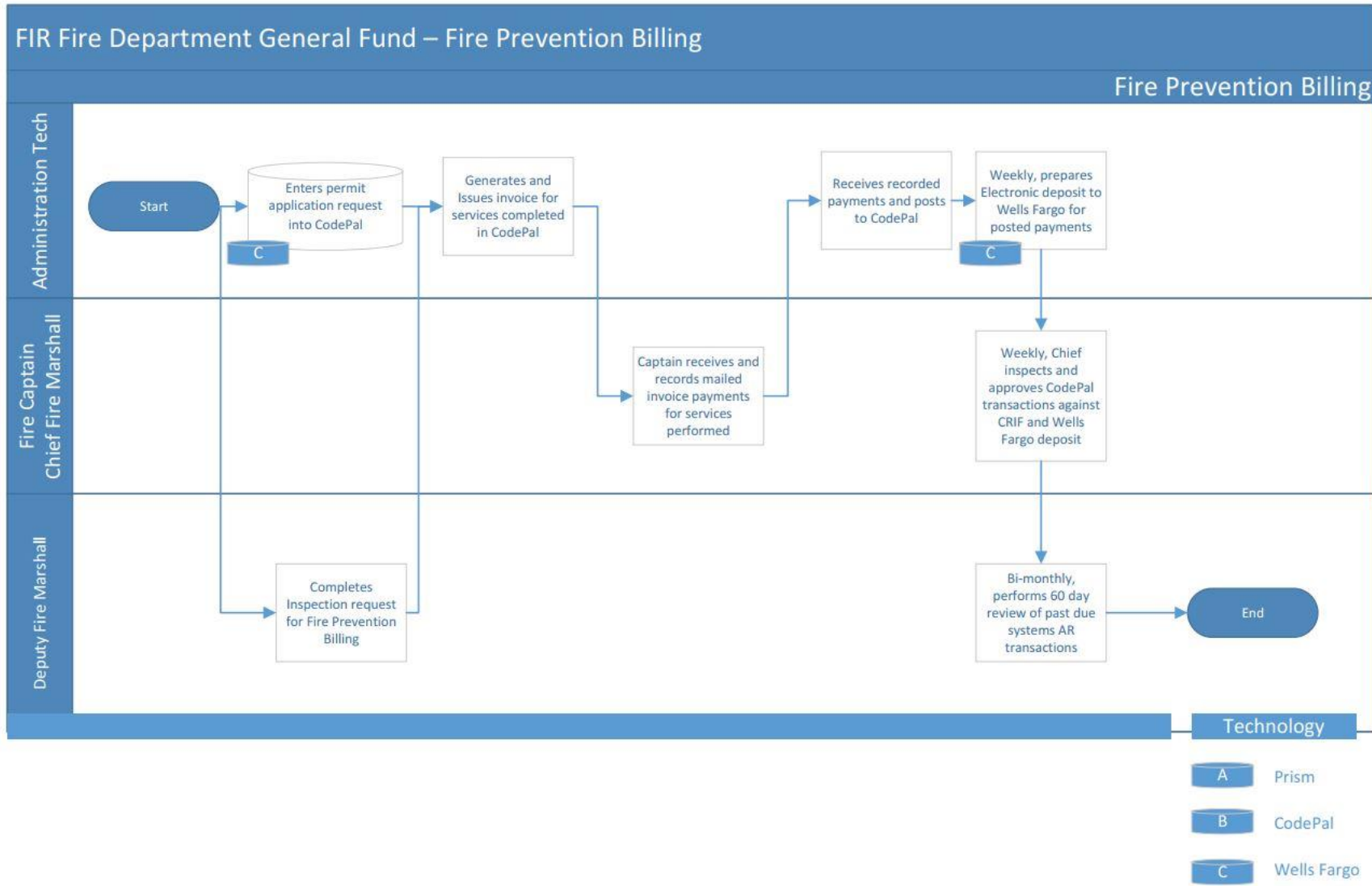
Objectives and Approach (continued)

Risk Ratings

| Observation Risk Rating Definitions | |
|-------------------------------------|--|
| Rating | Explanation |
| Low | Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure. |
| Moderate | Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term. |
| High | Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately. |

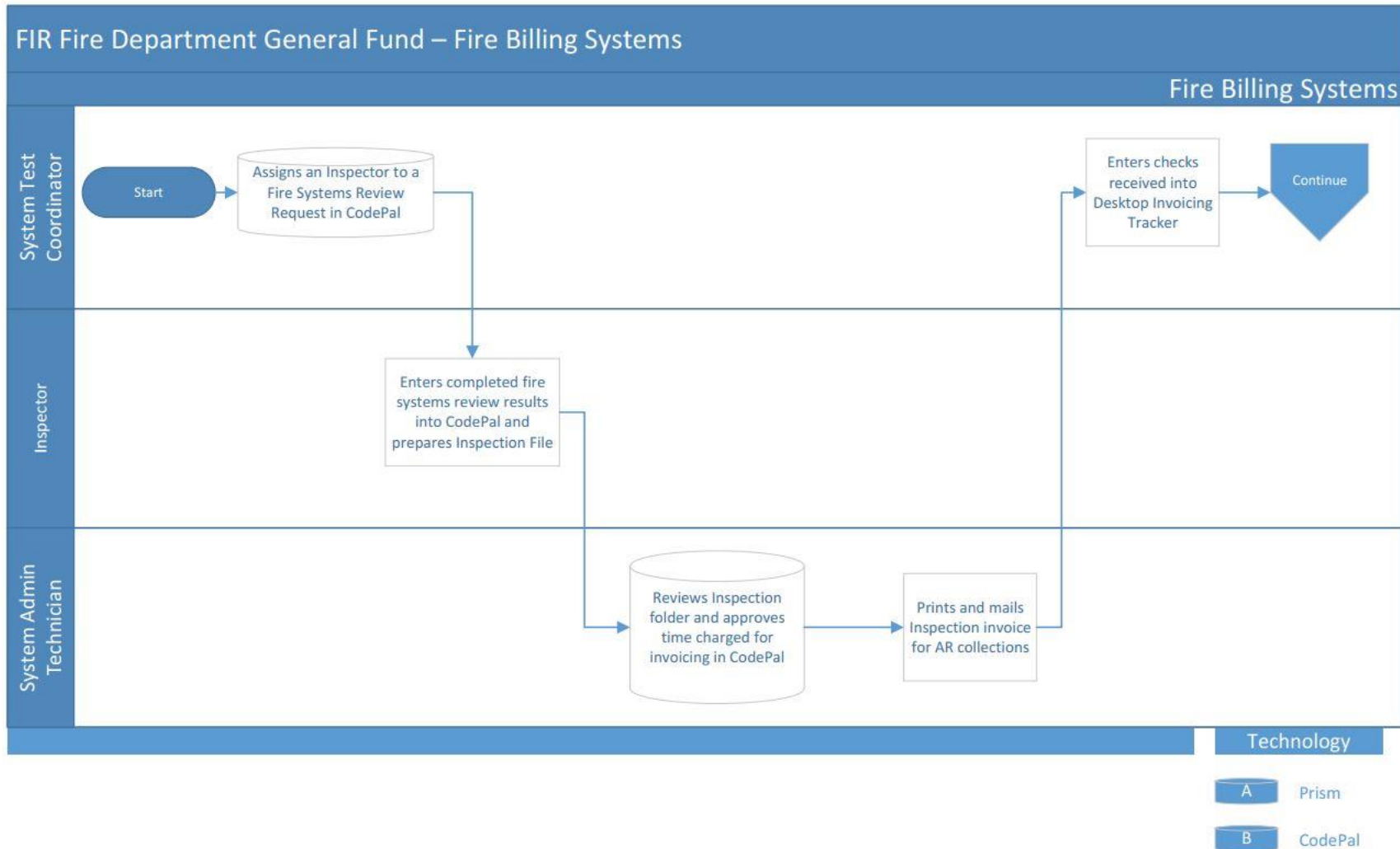
PROCESS MAPS

Fire prevention services



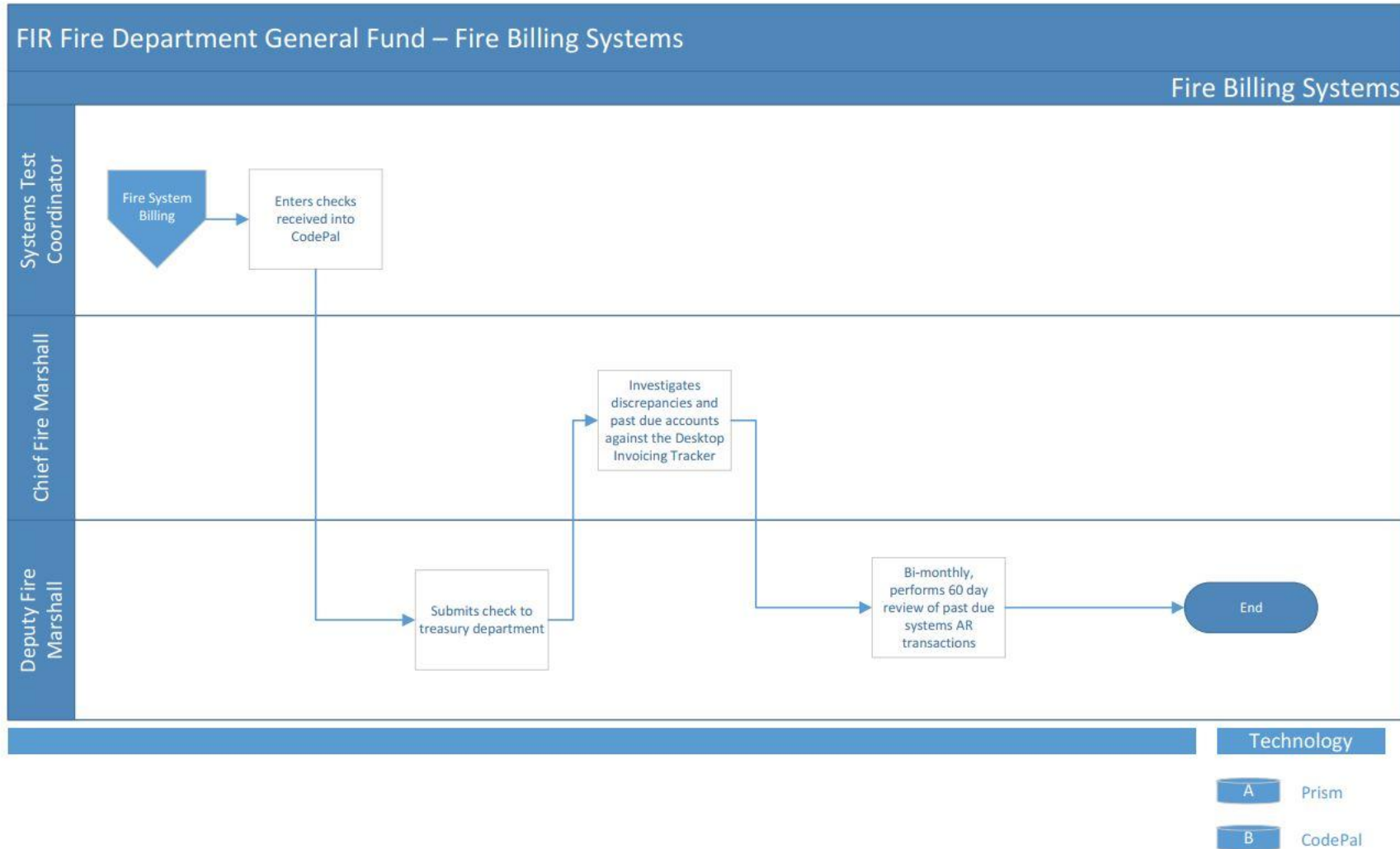
PROCESS MAPS (CONTINUED)

Fire systems billing



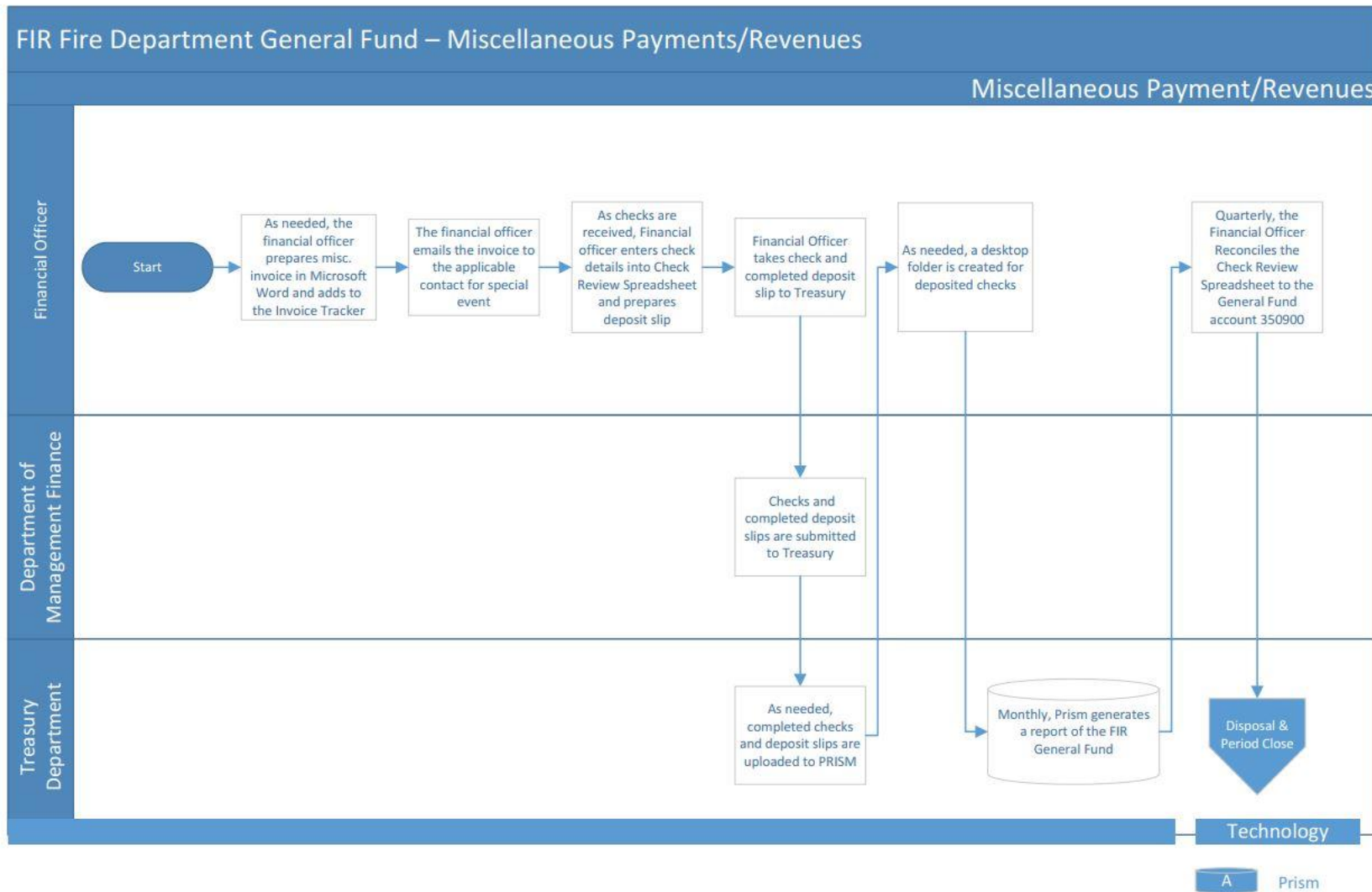
PROCESS MAPS (CONTINUED)

Fire systems billing (continued)



PROCESS MAPS (CONTINUED)

Other miscellaneous revenue





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