

Date: March 25, 2016
To: Harry Black, City Manager
From: Lauren Sundararajan, CFE, Internal Audit Manager *LS*
Copies to: Dr. Noble Maseru, Health Commissioner
Subject: **Health Department - Cash Handling Audit**

Attached is the Cincinnati Health Department (CHD) - Cash handling audit report. The primary objective of this audit was to determine if the health centers have a strong internal control structure for handling cash.

We would like to thank CHD staff for their assistance and cooperation during this audit.

If you need any further information please contact me.

Attachment

Health Department Cash Handling Audit

March, 2016



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Executive Summary

Internal Audit (IA) performed an audit of the City of Cincinnati Health Department (CHD) cash handling process. The audit objective was to determine if the health centers have a strong internal control structure in place for handling cash.

The establishment of comprehensive policies and procedures serves as a valuable management tool by assisting leadership with providing direction and guidance to staff. IA found CHD's cash handling policies and procedures need a comprehensive review and update. The current policy excludes procedures that include: entering payments into the database, preparing and retaining supporting documentation, obtaining supervisor approval for voided transactions, reconciling payments received, reporting overages or shortages and performing spot checks. Establishing comprehensive cash handling policies and procedures will provide guidance to staff and aid in ensuring the department's cash handling objectives are met.

Segregation of duties is a key internal control intended to prevent fraud and error. In order to maintain proper segregation of duties, collecting, recording, reconciling, and depositing processes should be performed by separate individuals. IA found the Customer Relations Representative's (CRR) job duties were not properly segregated at all health centers. Mitigating controls should be put in place when circumstances do not allow for proper segregation of duties. For example, additional oversight or monitoring controls conducted by someone not involved in the daily cash handling process would aid in detecting irregularities or errors.

The audit also revealed internal controls over cash handling need strengthening. IA found discrepancies in bank deposit supporting documentation, lengthy delays in depositing cash, and an occurrence where cash receipts were not recorded in the database nor deposited. Additionally, employees responsible for the cash handling process were not properly trained.

Another area that needs attention is the strengthening of physical access controls. Proper security controls should be in place due to the inherent risk of cash being highly susceptible to theft and abuse. IA found several employees have the combination to the safe and the combination is not changed when personnel leave the department. Additionally, several of the health centers do not have security cameras in the cash handling area; strategic placement of security cameras could aid in deterring unlawful activity.

To ensure cash handling internal controls are functioning at an optimal level, IA recommends implementing tighter controls over the cash handling review process, reconciling cash receipts in the database to the Cincinnati Financial System (CFS) on a monthly basis, implementing proper segregation of duty controls, strengthening security measures, and ensuring staff has the knowledge and resources necessary to complete tasks appropriately.

I. Introduction

Background

The goal of the Cincinnati Health Department is to provide preventive and primary health care services to uninsured and underinsured Cincinnatians who do not have access to medical services. CHD serves more than 38,000 patients, a majority of whom are indigent, disadvantaged working poor, homeless or uninsured. Some of the other services provided to patients include: dental, behavioral, pharmacy and laboratory services.

CHD has eight primary care and dental centers and 11 school based health centers. The CRR at the health centers are responsible for recording patient payments, verifying funds received, preparing the daily deposits, preparing the audit packet and other duties. Patients generally must live within the city limits and provide proof of residence to receive service. Additionally, a sliding scale is used based on the patient's income.

EPIC is the department's practice management and electronic medical records system. CHD staff uses EPIC to record patient activity, schedule appointments, manage interoffice clinical messages, track demographics and manage other tasks.

The daily cash payments are entered into EPIC. The CRR prepares the audit packet at the end of the business day. The audit packet consists of a user batch report, receipts, deposit slips, credit card settlement, and Brinks deposit bag tabs. CHD's data center generates a daily reconciliation report and emails the report to the Fiscal section at CHD. The daily reconciliation report is reviewed by Fiscal and matched to the deposit tickets from Treasury Division. An employee in Fiscal prepares the cash receipt schedule and forwards it to the Finance Department for posting in CFS.

According to the CFS download, for the period of January 1, 2014 through June 30, 2015 the health centers collected approximately \$930,000.

During FY15, CHD employed approximately 152 employees and their operating budget was \$17.6 million.

Audit Selection

IA conducted this audit as part of the current audit agenda.

Audit Objective

The audit objective was to determine if the City's health centers have a strong internal control structure in place for handling cash.

Audit Scope and Methodology

This audit encompassed pertinent city staff, records, and the EPIC database system. Events occurring between January 1, 2014 and June 30, 2015 were reviewed.

To accomplish the objectives of this audit, IA used the following methodologies: interviewed relevant staff members, analyzed cash receipt data, reviewed pertinent policies and procedures, and examined reports.

Statement of Auditing Standards

As required by Cincinnati Administrative Code Article II §15, this audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), except for standard 3.96 pertaining to external peer review requirements. This exception did not have a material effect on the audit.

IA continues to conduct internal quality reviews to assure the conformance with applicable GAGAS. IA performed the fieldwork between August 2015 and February 2016.

Commendations

Internal Audit commends Cincinnati Health Department staff on their cooperation throughout the audit.

II. Audit Findings and Recommendations

Comprehensive policies and procedures were not up to date.

Comprehensive policies and procedures assist management with providing direction and guidance to staff, and are key components of internal controls. IA found CHD's cash handling policies and procedures had not been revised to reflect current practices and its policies and procedures do not address pertinent cash handling processes. For example, the policy does not include: entering payments, preparing and retaining supporting documentation, processing voids and obtaining supervisor approval, reconciling payments received, and reporting overages or shortages. Establishing comprehensive cash handling policies and procedures will provide guidance to staff and aid in ensuring the department cash handling objectives are met.

IA inquired with staff and found CHD does not conduct random cash audits or spot checks. Best practices indicate conducting random cash audits encourages compliance with policies and procedures. In addition, this practice is not established in their policies and procedures, as should be.

Another area of their policies and procedures that require clarification pertains to issuing refunds. IA was informed, under certain circumstances, the CRR is permitted to issue a refund to the patient the day of the initial visit. If the patient requests a refund after the initial visit, the Fiscal section processes the refund. CHD policies and procedures do not specifically address the varying circumstances permitting the CRR to issue a refund. Clarifying the language would prevent misinterpretations of the policy and procedures and aid in preventing unacceptable practices.

Recommendation 1: CHD policies and procedures should be updated to reflect current practices and include pertinent cash handling processes and procedures. At a minimum, they should address procedures for entering patient payments, preparing and retaining supporting documentation, processing voids and obtaining supervisor approval, reconciling payments received, reporting overage or shortages, and performing cash audits and spot checks. Additionally, updated policies and procedures should be properly communicated and enforced to staff responsible for cash handling.

Department Response: Agree. The department recently updated the cash handling policies. Our Assistant Health Commissioner, Health Clinic Coordinator, Fiscal Staff, and Administrative Staff will continue to carry out the updated procedures. The updated policy reflects current practice. The updates are effective immediately. Note: Even though the points cited below are primarily from one center, the department understands our controls and processes need strengthening and it will work to do so.

Internal controls over the cash handling process need strengthening.

Strong internal controls over cash handling ensure City assets are properly managed. Best practices in cash handling and key internal controls include establishing proper segregation of duties, ensuring payments are recorded upon receipt, depositing cash within one business day, maintaining proper documentation to support an audit trail, and providing the appropriate amount of training and oversight.

Segregation of duties is a control intended to prevent fraud and error. It prevents one employee from having total control of the process. In order to maintain proper segregation of duties, collecting, recording, reconciling, and the depositing processes should be performed by separate employees. IA found the CRR job duties were not properly segregated at all health centers. Mitigating controls should be in place when circumstances do not allow for proper segregation of duties. For example, additional oversight or monitoring controls conducted by someone not involved in the daily cash handling process would aid in detecting irregularities or errors. Another example would be to have a separate individual review the daily activity and prepare the bank deposit.

IA tested the cash handling processes at the health centers to determine if there were strong internal controls in place by randomly selecting 14 deposits made during the audit period. IA found 2 (14%) out of 14 deposits were entered into the wrong health center account. IA also found the following:

- A \$150 cash payment received in April 2015 was not recorded or deposited.
- Lengthy deposit delays (one example showed 30 days lapsed before cash receipts were received by the bank).
- A discrepancy was found between what was deposited per the Brinks book and what was collected per the daily cash reconciliation report.
- One health center did not properly retain the deposit slips, user batch report and other supporting documentation.
- Pre-numbered deposit slip bags were not utilized in sequential order. IA inquired about a gap in the Brinks bag number sequence and found that the daily deposit was not written in the Brinks book.
- Employees responsible for the cash handling process were not aware of nor had received training in the cash handling policies and procedures.

Recommendation 2: CHD should review the cash handling process and implement proper controls for segregation of duties over cash handling.

Department Response: Agree. The segregation of duties in the health centers is already in effect. The Assistant Health Commissioner, Health Clinic Coordinator and Administrative Staff will continue to enforce this update.

Recommendation 3: CHD should provide additional reviews of the CRR's audit packet documentation, Brinks deposit log, and the daily reconciliation report to ensure discrepancies are detected in a timely manner. Additionally, CHD should ensure deposit slip bags are utilized in sequential order to aid in reviewing and investigating any gaps.

Department Response: Agree and disagree. Fiscal currently monitors daily cash activity at the health centers on a daily basis. The Fiscal Staff closely oversees the centers' cash handling activity. Fiscal can track what the health centers take in by comparing what the bank receives/receipts against the Daily Cash Reconciliation report generated from EPIC. When possible, the Administrative Staff are to notify Fiscal when any discrepancies occur between what the bank receipts and what is recorded into EPIC. The Brinks log must match the deposit bags or Brinks will not make the deposits. As long as the department can account for all of the deposits, using the deposit bags in sequential order is trivial. The Assistant Health Commissioner, Health Clinic Coordinator and Fiscal will enforce the retention of audit packs and continue to monitor the daily cash activity.

Recommendation 4: CHD should ensure the bank deposit is made within one business day in accordance with City policy. Any delays in depositing money received should be documented and the Fiscal section should be informed of the reason for the delay.

Department Response: Agree. All centers must adhere to City policy. For the Health Department Health Centers, this means having the daily deposit ready for Brinks to pick-up the following day. The Administrative Staff must inform Fiscal of any deposit delays. Note: Most health centers were following this policy during the timeframe of this audit. The one center in question now has new personnel and better understanding of City policy. All centers currently abide by the City policy. The Assistant Health Commissioner, Fiscal and Administrative Staff will enforce this policy.

Recommendation 5: CHD should ensure that staff responsible for the cash handling process has received the knowledge, training, and resources necessary to complete the tasks appropriately. Staff should then be held accountable pursuant to designated performance standards.

Department Response: Agree. Proper training and performance standards for the health center staff are necessary. Training and accountability of the health center staff will be carried out by the Assistant Health Commissioner, Health Clinic Coordinator, Administrative Staff and Fiscal. CHD will continue to improve in this area.

Security measures need strengthening.

Establishing strict physical access control over cash is imperative due to the inherent risk of cash being highly susceptible to theft and abuse. Limiting access to cash and controlling who handles it reduces this risk. IA found several employees have the combination to the safe and it is not changed when personnel leave the department. Additionally, employees are not required to sign a log when adding or removing cash from the safe.

Most of the health centers utilize a security box, or security bag for storing cash and checks. The security box or security bag at several of the health centers was placed in an unlocked drawer or file cabinet. At one center, IA observed cash lying in an unlocked drawer. Staff indicated the center was not provided with a security bag or lockbox.

Furthermore, several of the health centers do not have security cameras positioned in cash handling areas, and one health center had a security camera that was not functioning. IA also found securing access to the cash handling areas and other security measures varied by health center. Installing security cameras would increase the City's ability to effectively monitor cash handling areas in the event of theft or an emergency.

Recommendation 6: CHD should require that the combination to the safe is changed at all health centers. In addition, only two individuals should have the combination to the safe, one individual serves as a backup. Going forward, the combination to the safe should be changed periodically or when personnel leave the department.

Department Response: Agree Somewhat. The department agrees that changing the combinations would make cash more secure. However, the department has to look into the feasibility of this recommendation because the current safes may not accept combination changes. This recommendation may require the purchasing of new safes. Currently, the

combinations to the safes are limited, but not to just two people in all of the centers. All of the safes are behind locked doors during off hours. Upper management will consider this recommendation.

Recommendation 7: CHD should require that a log book be signed by individuals who add or remove cash from the safe. The log should contain the individual's name, date, time of entry, and the reason for opening the safe. Additionally, the person who makes the bank deposit should also sign the log book.

Department Response: Agree Somewhat. There is already a log for Brinks. Currently, the health center staff documents the following in the Brinks log: date of the deposit, the name of the person making the deposit, the deposit bag number, and the amount of the deposit. The department will evaluate adding a process for logging entry into safes at each health center. If approved, the Assistant Health Commissioner, Health Clinic Coordinator, and Administrative Staff will implement and enforce the use of safe logs.

Recommendation 8: CHD should ensure the appropriate security measures are in place and functioning properly. These measures should include safeguarding, installing and maintaining working security cameras in the cash handling areas, providing staff with the necessary tools to secure cash, and communicating to staff the importance of adhering to security practices.

Department Response: Agree. Security cameras are a great deterrent for theft and increase security. As soon as possible, the department will begin to inspect and maintain existing cameras as funding allows. Any addition of security cameras in the health centers would have to be a capital improvement project. Upper management will have to determine the best course of action for this recommendation.

III. Conclusion

Cincinnati Health Department provides a valuable service to the community by offering preventive and primary health care services to uninsured and underinsured Cincinnatians who do not have access to primary care services.

Due to the inherent risk of cash being highly susceptible to theft and abuse, it is imperative that CHD implement strong internal controls over the cash handling process. The audit revealed areas that need improvement. For example, CHD cash handling policies and procedures were not thorough and up to date, deposit discrepancies were not detected by staff, cash was not recorded upon receipt nor deposited, and lengthy delays in depositing cash was found.

To ensure cash handling internal controls are functioning at an optimal level, IA recommends implementing tighter controls over the cash handling review process, reconciling cash receipts in EPIC to CFS on a monthly basis, implementing proper segregation of duty controls, strengthening security measures, conducting cash audits and spot checks, and ensuring staff has the knowledge and resources necessary to complete tasks appropriately.

IV. Health Department Response

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