DATE: September 4, 2018

TO: Selena Cuffee-Glenn
              Chief Administrative Officer

FROM: Louis Lassiter *LRL*
              City Auditor

SUBJECT: Department of Social Services – Finance Unit /
              LASER Reimbursement Process Audit

The City Auditor's Office has completed the LASER Reimbursement Process
audit and the final report is attached.

We would like to thank the staff in DSS for their cooperation and assistance
during this audit.

Attachment

cc: The Richmond Audit Committee
     The Richmond City Council
     Mr. Reginald Gordon, Interim DCAO of Human Services
     Ms. Shunda Giles, Director of DSS

Intentionally left blank

2019-03
Department of Social Services – Finance Unit LASER Reimbursement Process

City of Richmond, VA
City Auditor's Office
September 4, 2018

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY18 audit plan approved by the Audit Committee.

This audit focused on the expenditures reported to the State through the LASER System. The objective of this audit was to determine whether the expenditures reported to the State for reimbursement through LASER were accurate and adequately supported.

What We Recommend

- The DSS Finance Deputy Director work with the City Controller and the Information Technology Director to automate the data printed on the check stubs.

- The Superintendent of Accounting work with DSS Program Managers to recover the duplicate payments identified and the DSS Budget Manager adjust the LASER reimbursement request accordingly.

Department of Social Services
Finance Unit – LASER Reimbursement Process

Background

The Richmond Department of Social Services (DSS) is required by the State to submit a monthly certification and reconciliation of expenditures validated by Virginia DSS. These expenditures must be submitted to the State through their Locality Automated System for Expenditure Reimbursement (LASER). On the last business day of the month, the City receives revenue based on the LASER Chart of Accounts for the Federal and State share of expenditures.

During calendar year 2017, DSS reported expenditures totaling over $50 million. These expenditures consisted of administrative costs and client specific payments related to programs, such as the Blind, Aged and Disabled, Title IVE, Adoptions, General Relief (local only program), etc. Client specific expenditures are keyed in Harmony, which is DSS' client software and uploaded in the City's financial system (RAPIDS) to issue payments. Administrative expenses (i.e. vendor payments, payroll) are processed directly in RAPIDS.

Commendations

Expenses Properly Supported

- The auditors selected a random sample of 60 transactions (40 Harmony, 10 General Ledger, and 10 Account Payable) to determine whether they were properly supported and found no exceptions. All 60 transactions were properly supported.

Adjustments

- The auditors tested a sample of 52 voids (out of 284) from CY17 and verified that all were voided in both Harmony and RAPIDS.

Harmony to RAPIDS Reconciliation

- For four months tested, the auditors were able to verify that all Harmony transactions were transferred to RAPIDS and the two reconciled.
- For one month tested, all transactions were input into the correct accounting string.

Harmony to LASER Reconciliation

- The auditors reviewed four monthly reconciliations and noted that all amounts from Harmony and RAPIDS were supported. Additionally, the amounts from the two systems reconciled with the LASER reports submitted to the State.

Needs Improvements

Finding #1 – Manual Check Processing

- DSS staff spend over 100 hours per year picking up checks and stuffing the envelopes for some client based expenditures.

Finding #2 – Duplicate Payments

- The Auditors noted 10 of 49 pairs of similar expenditures were duplicate payments and the City overpaid clients and over requested funds from the State $5,278. The DSS Finance Unit identified and recovered $1,485 of these funds prior to the audit.

Management concurred with 2 of 2 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

BACKGROUND

Overview

The Finance Unit within the Department of Social Services (DSS) performs a full range of accounting services to include, but are not limited to:

- State Expenditure Reporting and Reimbursements,
- Accounts Payable/Accounts Receivable,
- Reconciliations,
- Billing,
- Administrative costs, and
- Travel

According to §63.2-401 of the Code of Virginia, "Within the limits of the appropriations of state funds, the Commissioner shall reimburse the entire balance of such public assistance and social services grants as have been paid by each city, county or district fiscal officer after crediting them with the reimbursement made from federal funds."

DSS is required by the State to perform a monthly certification and reconciliation of expenditures. These expenditures must be submitted to the State through their Locality Automated System for Expenditure Reimbursement (LASER). Once the State receives the certification and reconciliation forms, they reimburse the City for allowable reported expenditures in accordance with State and Federal guidelines.

During Calendar year (CY) 2017, DSS reported expenditures totaling $50,583,403. Below is a summary of expenditures by source for CY2017.

LASER Expenditure Totals				
Federal	State	Local	Non-Reimbursable	Total Funds
$26,774,771	$16,107,559	$7,020,219	$680,855	$50,583,403*

*Values do not add to total due to rounding

Source: Auditor Prepared from LASER data.

Expenditure Processing

The expenditures reported to the State through LASER consisted of administrative costs and client specific payments. The administrative expenses are processed directly in RAPIDS and are not tracked in Harmony. Additionally, during the monthly request process, DSS runs various reports to obtain the administrative costs paid through RAPIDS. These expenses are included in the monthly expenditure reimbursement requests. The request for the reimbursement is submitted electronically to the State of Virginia and certified by the City's DSS authorized staff.

The client specific expenditures are keyed in the Harmony System (DSS' client system) and uploaded nightly into RAPIDS to issue payments. For the majority of the audit scope, the client specific payments were uploaded to a conversion account in RAPIDS from Harmony and had to be manually reclassified to the correct accounting strings. The conversion account was cleared monthly and journal entries were processed to reclassify the expenditures to the correct cost
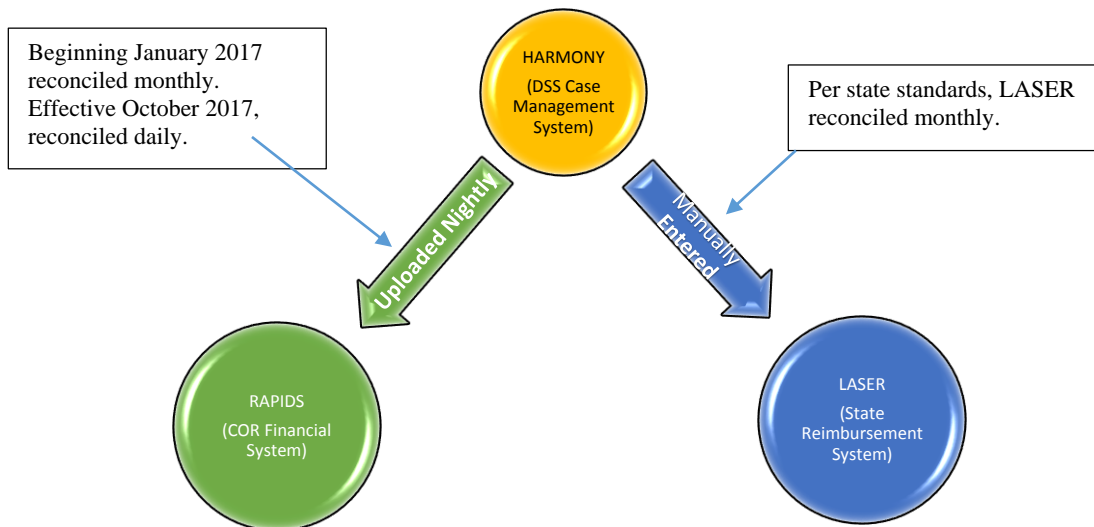
centers. This was automated in October 2017 and the expenditures are now uploaded to the correct accounting strings eliminating the need to manually reclassify the expenditures.

LASER Reconciliation Process

At the end of each month, the DSS Finance Unit generates a summary report of the monthly expenditures (by program) from Harmony.   These expenditures are then keyed into LASER as depicted below.

Beginning January 2017 reconciled monthly. Effective October 2017, reconciled daily.

HARMONY
(DSS Case Management System)

Per state standards, LASER reconciled monthly.

Uploaded Nightly

Manually Entered

RAPIDS
(COR Financial System)

LASER
(State Reimbursement System)

Auditor prepared

OBJECTIVES

The objective of this audit was to determine whether the expenditures reported to the State through the Locality Automated System for Expenditure Reimbursements (LASER) were accurate and adequately supported.

SCOPE

The scope included all functions of tracking, reporting, reconciling and reimbursement requests to the Commonwealth through LASER, for Harmony and RAPIDS data during calendar year 2017. Client eligibility was not within the scope of the audit.

METHODOLOGY

The auditors performed the following procedures to complete this audit:

- Interviewed management and staff;

- Reviewed and evaluated relevant policies and procedures and tested for compliance;

- Reviewed hard copy files; and

- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;

- Accurate financial reporting; and

- Compliance with laws and regulations.

Based on the audit test work, the auditors concluded that internal controls related to the LASER reconciliation process within the Finance Unit were in existence and effective. However improvement is needed to ensure clients are not paid twice for the same expense.

FINDINGS and RECOMMENDATIONS

What works well

Expenses Properly Supported

DSS reports and certifies monthly expenditures to the State through LASER. The LASER reimbursement requests include expenditures gathered from various sources as follows:

- Client based expenditures obtained from the Harmony System.
- Administrative costs obtained from RAPIDS.

The auditors tested the accuracy of the expenditures reported to the State and noted the following:

Client based expenditures

The Finance Unit has proper safeguards in place to ensure payments are properly approved and supported. Their approval and payment process is as follows:

- Case workers supply the support for service and a Benefits Specialist reviews and inputs the requests into Harmony. The request is submitted to the appropriate supervisor who must approve the request before it is processed. Once approved, the DSS Finance Unit and the DSS Cash Office are sent the request for approval.

- The DSS Unit submits a monthly "pre Check" file to the DSS supervisors to review the on-going monthly transactions before they are finalized. During this process, supervisors review the transactions for over/underpayments, vendor accuracy, and verify that there are no duplicates in the system.

In CY17, Harmony contained 20,348 client based expenditures. To test the strength of the controls above, the auditors selected a random sample of 40 transactions to verify the expenditures were properly supported. The auditors noted that all 40 client based expenditures were properly supported.

Administrative Costs

As mentioned above, the LASER reimbursement requests include administrative costs, which are captured in RAPIDS. The Finance Unit must maintain documentation to support these expenditures. The auditors selected a random sample from the November 2017 Accounts Payable (AP) and General Ledger (GL) reports. After removing those expenditures that were captured in Harmony, the auditors selected a random sample of ten AP items, five Payroll GL items, and five GL purchase invoices. The auditors reviewed source documentation for the sampled transactions and noted that:

- 100% of the AP payments were properly supported,
- 100% of the Payroll GL were for DSS employees, and
- 100% of GL Purchase invoices were properly supported.

Adjustments

Within the Harmony system, adjustments are made to client based expenditures for various reasons. A couple of examples are:

- Children move or change in age, causing payments to be adjusted/pro-rated frequently.
- Clients who live in adult homes require assistance for living expenses, move to different facilities.

When these changes occur, DSS case workers are notified by court order, or the facilities sending in change forms. If DSS sends out these checks prior to the notification of change, the checks must be returned and voided or if not returned, simply voided. If a check is cashed, it is sent to the

Fraud Unit for collection. If required, a new payment with the new information can be sent once DSS either receives the incorrect check or voids the erroneous check.

The auditors selected a sample of 52 voids (out of 284) from CY17 and verified that 100% of the sampled checks were voided in both Harmony and RAPIDS. No exceptions were noted.

Harmony to RAPIDS Reconciliation

Although DSS uses Harmony as their main system to capture client information, the City's financial system of record is RAPIDS. The Department transfers all expenditures from Harmony to RAPIDS for payment. From January 2017 through October 2017, these transfers were reconciled monthly to ensure completeness. Effective October 2017, DSS started reconciling on a daily basis.

To test the completeness of the RAPIDS data, the auditors tested one month from each quarter (four months), three from the old process and one from the new process to verify that all expenditures in Harmony were transferred to RAPIDS. The total expenditures in Harmony for each month tested were as follows:

Month	Amount
February	$1,295,876
May	$1,382,624
August	$1,076,749
December	$1,174,708

Source: Harmony data

After reviewing each month, the auditors noted that all transactions from Harmony were recorded in RAPIDS for the accurate amount.

In addition, as a part of the prior process, the expenditures were transferred to a conversion account in RAPIDS and then reclassified to their correct accounting strings when reconciled. Starting in October 2017, DSS used a crosswalk to transfer the expenditures into the correct accounting strings when they uploaded them into RAPIDS. The auditors reviewed the December

expenditures to ensure they were recorded in the correct accounting string.   The auditors noted no exceptions.

Harmony to LASER Reconciliation

The auditors reviewed four monthly reconciliations and noted that all amounts from both the Harmony and the RAPIDS System were supported. The auditors also noted that the amounts from the two systems reconciled with the LASER reports submitted to the State. In addition, manual adjustments submitted through the LASER reconciliation were properly supported.

The auditors also noted that once DSS submits the reimbursement request, the State determines the reimbursement amount by allocating expenditures as follows:

- Federal,
- State,
- Local, or
- Non-reimbursable.

Once funds are processed by the State and the allocations are determined, reimbursements are submitted to the City. The auditors selected one month to verify the LASER reimbursement deposit amount and also tested to verify revenues were credited to the proper RAPIDS accounting string. The auditors noted the funds received by the City were applied to the appropriate accounting string.

Needs Improvement

Finding #1 – Manual Check Processing

During the audit, it was noted that DSS staff pick up payment checks for various assistance programs and manually enclose the corresponding Harmony Check Detail Report with each payment check.   This is done to assist the vendors in identifying where to apply the payments.

During the implementation of RAPIDS, the Department of Information Technology (DIT) developed a customized interface program to convert client services accounts from the Harmony Case Management System into the RAPIDS Financial System in order to produce a payment check. The file uploaded in RAPIDS are identified as Payment Voucher Department of Social Services (PVDSS). DSS staff have to manually match the invoices being paid with some of the vendor's checks containing multiple clients and attach them to the checks.

DSS staff spend over 100 hours per year picking up checks and stuffing envelopes. Staff could dedicate these hours to other productive activities delivering services to the citizens. Also, automating this process could reduce the likelihood of losing any checks while they are either being transported to DSS or while stuffing the envelopes.

Recommendation:

1. *We recommend the DSS Finance Deputy Director, the Information Technology Director and the City Controller work together to automate the data printed on check stubs.*

Finding #2 – Duplicate Payments

As noted earlier in the report, Harmony contained 20,348 client based expenditures in CY17. In order to check the controls in place (pre checks) the auditors analyzed the data for potential duplicate payments. After searching for expenditures with the same program, service, amount, client, and month paid, the auditors noted 354 potential duplicates. A sample of 99 expenditures were selected for testing (49 pairs includes one with 3 matches). The auditors noted 10 payments (6 clients) of the 49 pairs were duplicates. The City overpaid $5,278 from the sample to clients and requested reimbursement from the State. However, the auditors noted that the DSS Finance Unit identified a client that received three of the above duplicates and recovered the funds totaling $1,485 in October 2017. The auditors also noted that the returned funds were captured in the Laser Reimbursement request.

Recommendation:

2. *We recommend the Superintendent of Accounting work with DSS Program Managers to recover the duplicate payments identified and the DSS Budget Manager adjust the LASER reimbursement request accordingly.*

APPENDIX A: MANAGEMENT RESPONSE FORM
2019-03 DSS Finance Unit - LASER Reimbursement Process audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We Recommend the DSS Finance Deputy Director, the Information Technology Director and the City Controller work together to automate the data printed on check stubs.	Y	DSS Deputy Director of Finance will follow-up with Finance City Controller and the Director of Information Technology to review the specifications requirements and cost benefit analysis. Our goal is to ensure supporting data is properly printed on the check stubs.
	TITLE OF RESPONSIBLE PERSON		**TARGET DATE**
	DSS Deputy Director of Finance & Administration		October 31, 2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		**IF IMPLEMENTED, DETAILS OF IMPLEMENTATION**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend the Superintendent of Accounting work with DSS Program Managers to recover the duplicate payments identified and the DSS Budget Manager adjust the LASER reimbursement request accordingly.	Y	The DSS Superintendent of Accounting along with the Program Manager for Auxiliary Grants, submitted letters and supporting documentation to vendors and clients requesting to return funds within 30 days. If funds are not returned timely, the case will be forwarded to the DSS Fraud Unit for collections. The LASER reimbursement requests will be adjusted accordingly upon receipt of funds. In addition, DSS Finance has implemented a control process to run a report query on a quarterly basis to help identify unauthorized duplicate payments.
	TITLE OF RESPONSIBLE PERSON		**TARGET DATE**
	DSS Superintendent of Accounting and DSS Auxiliary Grant Program Manager		September 17, 2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		**IF IMPLEMENTED, DETAILS OF IMPLEMENTATION**
	Waiting for returned funds from three clients.		