

DOUGLAS COUNTY INTERNAL AUDIT DIVISION

**DOUGLAS COUNTY ACCOUNTS RECEIVABLE
ANNUAL TESTING
FISCAL YEAR 2008/2009 SPECIAL REPORT - #04**

ACCOUNTS RECEIVABLE TESTING

PURPOSE: To determine if Douglas County Accounts Receivable Past Due invoices have accurate information.

Risks: The accounts receivable listing or individual balances may be inaccurate.
Accounts receivable balances may not exist (overstated)
Accounts receivable may not be collectible (overstated)
Transactions may be processed in the wrong period (understated)
Transactions may not have been invoiced (understated)

SCOPE: Invoices for payments owed to Douglas County with a past due status as of the end of the prior budget fiscal year, June 30, 2008. At the time of testing, all invoices were over 90 days past due.

SOURCE: Oracle Past Due Report.

AUDIT STEPS:

STEP (1): Obtain a detailed listing of accounts receivable balances (aged by customer) for both:

- Total Past Due
- Past Due by Department

The date utilized for the reports should represent invoices at least 90 days past due and include all invoices for the budget fiscal year in review if the date of testing permits. Reconcile the totals for the individual department with the total Past Due Report, verifying all invoice type (department) organizations have been included. If any specific clarification is needed regarding the accounts receivable information, follow-up with the Fiscal Administrator.

STEP (2): Determine appropriate sample size from balances shown on the Oracle Past Due Report and select invoices to be tested.

STEP (3): Verify the appropriate department head and any other relevant individuals who should receive the testing notification letter and appropriate corresponding information. The County Fiscal Administrator should be included in all notifications.

STEP (4): Notify Departments with Customers who have past due invoices and verify the following:

- The customer identified is accurate
- The outstanding balance is accurate
- Any pertinent information regarding these accounts such as: Account transferred to County Attorney, Incorrect Billing, etc.

STEP (5): Review Department's responses, verifying any customer information noted by the departments. If a department requests Douglas County Internal Audit Division (DCIAD) does not send a confirmation letter to a particular customer, verify if there are valid grounds for such a request (i.e. account transferred to County Attorney for collections).

STEP (6): Prior to the deadline stated in the department's notification letter, follow-up with departments who have not yet submitted a response.

STEP (7): Obtain a current detailed listing of accounts receivable balances (aged by customer) for both:

- Total Past Due
- Past Due by Department

The date utilized for the reports should be the end of the prior budget fiscal year. Note any differences in the customers and amounts listed on the report ran in step (1).

STEP (8): Obtain Oracle Over Due Letters for the customers who will receive DCIAD confirmation letters. Transfer the appropriate information from the Oracle letters to DCIAD letterhead.

STEP (9): Send confirmation letters to the customers with the following included:

- Customer's confirmation letter.
- Douglas County Clerk/Comptroller official mailing envelopes with the customer's address information printed on it.
- Douglas County Clerk/Comptroller official return envelopes with the following notation on the outside, bottom, left corner:
ATTN: Douglas County Internal Audit Division

STEP (10): If customers contact DCIAD, for follow-up such as:

- Disputing the information contained in the letter (i.e. balance due, charges listed, etc.)
- Receipt of the letter (i.e. charges do not belong to the customer)
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Obtain customer information and follow-up with the corresponding department and County Administration for resolution.

STEP (11): Notify departments and County Administration of findings. Verify if the departments and County Administration have any updates for DCIAD regarding invoices identified during testing if applicable.

OVERALL TESTING:

On October 6, 2008, the Past Due Oracle report identified the following types and balances due:

Type (Department)	Number of Customers	Total Balance Due
Corrections	4	\$1,816,268.02
Health Center	10	\$ 21,570.68
Health Department	15	\$ 408,628.32
Election Commission	5	\$ 174.16
Environmental Services	5	\$ 361,804.26
Omaha Douglas Public Building Commission (ODPBC)	1	\$ 19.50
Purchasing	15	\$ 26,650.09
Youth Center	5	\$2,753,691.12
Douglas County Information Service (DCIS)	102	\$ 86,252.82
Credit Memo	2	-\$ 37,438.66
Total		\$5,437,620.31

Eight existing county departments representing 60 customers were identified on the Oracle Past Due Report. The invoice due dates spanned six years, starting in 2002. As it could not be verified which invoices had special consideration such as “invoice turned over to the county attorney” and the customer sample size was small, it was decided to send confirmation letters to all appropriate customers listed on the Past Due Report.

Testing notification letters and corresponding Past Due Reports were sent to all departments except DCIS. DCIS no longer exists as a department of Douglas County. The aggregate balance of DCIS has not changed from last year’s testing. The County Fiscal Administrator stated during the conversion process invoices were created that were inaccurate. The County Fiscal Administrator will be reviewing the DCIS invoices and anticipates the review will be concluded by the end of the 2008/2009 fiscal year.

As credit memos were identified on the past due report, follow-up was conducted with the County’s Administrative offices. The credit memos were created in budget fiscal year 2001/2002. The County Administrative office verified these credit memo transactions were some of the first transactions to take place in Oracle upon implementation. The transactions were “done incorrectly”. In addition, one transaction was an actual credit memo and the other transaction was created to “bring the customer onto Oracle with a credit balance”. The transactions are still utilized to balance the Oracle accounts receivable. In addition, the County Administrative office stated the credit memo transaction can not be corrected in accounts receivable.

All departments with the exception of the Purchasing Department responded to the DCIAD testing notification letter. The following departments noted customer accounts were noted to be referred to the County Attorney's office:

Year Invoice Due	Number of Customers	Department	Total Balance Due
2003	1	Environmental Services	\$ 5,396.10
2003	1	Health Center	\$ 420.00
2004	1	Health Center	\$ 861.74
2005	1	Environmental Services	\$ 263,060.54
2005	2	Health Center	\$ 420.00
2006	1	Environmental Services	\$ 1,452.17
2006	1	Health Center	\$ 420.00
2007	2	Environmental Services	\$ 91,895.45
2007	1	Health Center	\$ 777.54
2008	1	Health Center	\$ 210.00
Total			\$ 364,913.54

The following were noted during the review of the department responses:

- Customers had invoices referred to the County Attorney that spanned more than one year: One Environmental Services customer had claims due in 2006 and 2007 noted as referred to the County Attorney and One Health Center customer had claims due in 2003, 2004, 2005, 2007, and 2008 noted as referred to the County Attorney. Information was not available during this testing as to when these charges were referred to the County Attorney.

A confirmation letter was not sent to customers' invoices that were referred to the County Attorney. Environmental Services provided a copy of their process/procedures for referring accounts to the County Attorney. As this information was not requested from all departments and not available during this testing, DCIAD is unable to verify if all County Departments have policies for referring past due accounts to the County Attorney.

- Two departments, the Youth Center and Corrections, were working with the County Administration office for resolution of customer accounts and amounts shown during this review in Oracle as Past Due. As a result, confirmation letters were not sent to these customers.

On October 20, 2008, Oracle report identified the following types and balances due:

Type (Department)	Number of Customers	Total Balance Due
Corrections	3	\$1,727,028.45
Health Center	10	\$ 21,570.68
Health Department	15	\$ 408,628.32
Election Commission	5	\$ 174.16
Environmental Services	5	\$ 361,804.26
Purchasing	15	\$ 26,650.09
Youth Center	4	\$2,699,694.20
Douglas County Information Service (DCIS)	102	\$ 86,252.82
Credit Memo	2	-\$ 37,438.66
Total		\$5,294,364.32

Customers' invoices that were now current were not sent a confirmation letter. Other situations that restricted the sending a confirmation letter included:

- A customer had a total balance due of \$10.00 or less a confirmation letter was not sent as the amount is cost prohibitive for DCIAD to pursue for testing purposes.
- A customer did not generate an Oracle Past Due and the identification of the cause of the problem was ongoing at the time of the confirmation letters being sent.
- The Department proactively identified a situation that made the invoice inaccurate, such as incorrect customer

In total, confirmation letters were sent to 32 customers representing \$434,890.78 and three County Departments: Health Center, Health Department, and Purchasing.

DCIAD facilitated communication between customers, the corresponding Departments, and the Fiscal Administrator for resolution of questions and concerns. The following were examples of contact received by the DCIAD:

- Customer was disputing the invoice amount
- Customer was disputing ownership of the charges
- Customer stating the invoice had been previously paid

In addition, County Administration verified that some corrections were required to reconcile invoices. Some of the corrections included:

- Payment was applied to wrong Customer Account
- Payment was applied to miscellaneous receipt instead of the corresponding invoice
- The invoice was associated with the incorrect Customer
- Charges should not have been invoiced separately

Another issue identified was the “type” field did not match the County Department Associated with one invoice.

On November 18, 2008, Oracle report identified the following types and balances due:

Type (Department)	Number of Customers	Total Balance Due
Corrections	3	\$1,287,463.12
Health Center	9	\$ 21,041.68
Health Department	12	\$ 379,129.31
Election Commission	5	\$ 174.16
Environmental Services	5	\$ 360,804.26
Purchasing	13	\$ 26,160.11
Youth Center	3	\$2,616,564.20
Douglas County Information Service (DCIS)	102	\$ 86,252.82
Credit Memo	2	-\$ 37,438.66
Total		\$4,740,151.00

It was verified with the County Fiscal Administrator that review and adjustments were ongoing with the Corrections and Youth Center accounts. The County Fiscal Administrator anticipates resolution of these accounts by the end of budget fiscal year 2008/2009.

The following is a summary of the testing results for invoices other than those referred to the County Attorney or are currently being reviewed by the County Fiscal Administrator:

Number of Departments	Number of Invoices	Summary	Dollar Amount
2	10	Incorrect Billing Identified	\$ 10,758.93
3	12	Charges Are Being Reviewed	\$ 7,872.49
3	21	No Response Received From Customer	\$ 97,781.28
2	4	Customer Verified the Charges Were Accurate, But Have Not Submitted Payment	\$ 1,503.73
1	7	Customer Is Questioning Charges	\$ 11,742.43
1	1	The Customer is Inactive	\$ 284.00
1	1	The Wrong (Type) Department was listed in the System, But the Accounting Information Was Correct	\$293,554.07
1	3	Wrong Address, Confirmation Letter Was Returned	\$ 203.98
3	13	Invoice Was Paid During Testing	\$ 30,058.18
	72	Total	\$453,759.09

Since October 6, 2008, there had been a change of \$697,469.31 in the total balance due.

DCIAD provided the departments updated listing of invoices with any applicable information and asked the departments to update DCIAD of any additional relevant information, including contact with the customer. No further information was supplied to DCIAD.

The following is a summary of Customer account balances that were under \$10.00, are still outstanding and/or were noted by the department as being uncollectible:

Customer	Department	Invoice Number	Due Date	Amount
City of Elkhorn	Purchasing Department	1381	March 14, 2003	\$ 0.18
Douglas County Housing Authority	Purchasing Department	11397	October 10, 2006	\$ 0.01
Nebraska Health Human Services WIC/CSFP	Health Department	626	July 30, 2007	\$ 0.02
Parliament Pub	Health Department	14428	April 21, 2008	\$ 0.01
Green Meadows	Election Commission	942	January 2, 2003	\$ 169.30
Lakeview Heights/Chimney Ridge	Election Commission	694	November 29, 2002	\$ 0.99
Nrohkle, Inc.	Election Commission	3233	November 29, 2003	\$ 2.67
West Hampton Park	Election Commission	38242	November 29, 2007	\$ 1.19
Woodbridge	Election Commission	6118	January 5, 2005	\$ 0.01
Total				\$174.38

The only customer on this list that received a confirmation letter was the Douglas County Housing Authority. When the confirmation letters were sent, Douglas County Housing Authority had two past due invoices totaling \$160.30. However, Douglas County Housing Authority submitted a payment for the one invoice totaling \$160.29.

Exception #1- There are no written policies and procedures for accounts receivable.

Criteria: Written policies and procedures help to ensure consistency and accuracy in processing and recording accounts receivable transactions.

Condition: Accounts receivable testing identified invoices that required corrections. These invoices ranged from 2006 to 2008 and represented \$10,758.93. In addition, \$7,872.49 in charges are being reviewed by the customers/departments and an additional \$11,742.43 in charges are being questioned by the customer as of the end of testing. These invoices were due ranging from 2003 to 2008.

Risk: County Administration's lack of written policies and procedures allows for inconsistencies and inaccuracy in processing accounts receivable transactions.

Recommendation: The County Administration Department policies and procedures need to be developed and documented. Currently, the County Administration Department is working to develop written policies and procedures. The County Administration Department should submit the policies and procedures to the Douglas County Board of Commissioners for approval. Approved policies and procedures should be disseminated to all County departments for implementation.

Exception #2- An invoice was documented in Oracle with a transaction "type" that was inconsistent with the information utilized to record the transaction in the general ledger.

Criteria: Accuracy in documenting accounts receivable information should be maintained.

Condition: Accounts receivable testing identified one invoice that represented \$293,554.07 that had the wrong transaction type listed.

Risk: Transaction types represent the department the transaction belongs to or represents other kinds of transactions such as credit memos. Although the journal entry for this invoice was correct, the past due account appears on reports associated with the wrong department. Departments that utilize the Past Due report to reconcile customers' accounts will not be able to accurately identify all accounts past due for their department. This results in an overstatement or understatement of balances due in presentation to that department. In addition to Past Due reports, the invoice reflects incorrectly on any report that utilizes this invoice information on Oracle. Also, if the invoice is paid, the inconsistency will be permanently applied to the wrong transaction type and therefore the wrong department.

Recommendation: If the Oracle system has the capacity to alert the user as to when there is an inconsistency in the information entered, this method should be utilized to proactively identify inconsistencies before the customer has made payment. If this feature is not available in Oracle, there should be written policies and procedures in place to identify and reconcile when inconsistencies have occurred. This process should be conducted on a periodic basis such as monthly.

Exception #3- Past Due accounts are not reconciled in a timely manner.

Criteria: Accounts past due should be managed in a consistent and timely manner thereby reducing the incidence of uncollectible balances.

Condition: Accounts receivable testing identified accounts past due from 2003 to 2008 that were outstanding and had not been documented as turned over the Douglas County Attorney. Customers contacted by DCIAD through confirmation letters stated they may not have the ability to reconcile the invoices through their internal processes due to the age of the invoice. In addition, one customer stated the customer's administrative agency had changed in 2006 and bills prior to the 2007 would have to be reconciled with the former administrative agency.

Risk: Incidence of uncollectible balances can increase for accounts that have not been reconciled in a timely manner. In addition, customers may have invoices that span several years that are past due and are still allowed to incur additional charges with the County. Also, errors are not detected that may later prevent collection of invoices due.

Recommendation: The County Administration department should have written policies and procedures in place regarding the reconciliation of past due customers' invoices with the departments. At a minimum, policies and procedures should include scheduled contact with the departments regarding accounts past due as of a certain date, such as 60 days. County Departments should have internal processes and procedures in place for reconciling accounts past due, including criteria for referring invoices to the County Attorney. Although the scope of this testing did not specifically review this issue with individual departments, there were accounts past due beyond one year that were noted by the department as the customer not responding to the department's contact, but the invoice had not been referred to the County Attorney. The dollar amount representing customers that did not respond to DCIAD or the department was \$97,781.28.

Exception #4- Past Due Balances referred to the County Attorney are still outstanding.

Criteria: Properly recording and communicating the status of past due accounts ensure appropriate and consistent handling of customer accounts.

Condition: Accounts receivable testing identified invoices were referred to the County Attorney, ranged in due date from 2003 through 2007, and that represented \$364,913.54. Some of the invoices have not decreased the amount due to the County since creation.

Risk: Incident of uncollectible balances can increase for accounts that have not been reconciled in a timely manner.

Recommendation: County Administration should have policies in place to consistently manage accounts referred to the County Attorney. Written policies and procedures should facilitate communication between County Administration, the County Attorney and the County Departments. County Administration should include the following:

- Criteria for eligibility for an invoice to be referred to the County Attorney to be applied to all departments in a consistent manner
- Standardized referral form utilized by County Departments to include the County Attorney and County Administration for accounts referred to the County Attorney
- Standardized forms utilized by the County Attorney to update County Administration and the departments on status of the accounts referred to the County Attorney
- Procedures for consistently maintaining and updating the accounts involving the County Attorney

It is important to note that, as the details specific to accounts referred to the County Attorney, such as date referred to the County Attorney, did not fall within the scope of this testing. Therefore, criteria, updates, and resolution could not be verified. In addition, as documented in Exception #3, DCIAD's testing scope did not specifically review this issue with individual departments. However, testing did identify incongruities in the invoices and lack of written procedures by County Administration that would warrant this recommendation. If policies currently due exist, due to limitations during testing, DCIAD could not verify their existence.

Exception #5- DCIS invoices are included with accounts generated by the past due report.

Criteria: Accounts receivable should accurately present balances that are accurate and reasonably collectible.

Condition: DCIS no longer exists as a County Department. However, DCIS has invoices on the past due report totaling \$86,252.82 with due dates ranging from 2002 to 2003. County Administration verified during the Oracle conversion process, invoices for created for DCIS were inaccurate.

Recommendation: DCIAD verified County Administration will review the DCIS invoices that are outstanding. When the review is complete, invoices verified as accurate should be transferred to a new allowance account or presented to the Board of Commissioners who have the authority to write off the balances. Given the large dollar amount noted in this testing, a full accounting should be presented to the Board of Commissioners and to the County Clerk/Comptroller.

Exception #6- Allowance accounts for uncollectible debt should be utilized.

Criteria: Accounts receivable should accurately present balances that are reasonably collectible.

Condition: Nine invoices totaling \$174.38 were identified as under \$10.00, are still outstanding and/or were noted by the department as being uncollectible. The invoices due date ranged from 2002 to 2008.

Recommendation: These accounts should be transferred to an allowance account for uncollectible debt after obtaining the approval of the Douglas County Board of Commissioners. Establishing allowance accounts will permit the County to accurately present account receivables that are reasonably collectible. This recommendation was made at the conclusion of testing for the last two years.

DCIAD Staff participants in: DOUGLAS COUNTY ACCOUNTS RECEIVABLE
ANNUAL TESTING
BI-ANNUAL PHYSICAL INVENTORY OF EQUIPMENT
PURCHASED WITH FEDERAL GRANT FUNDS
FY 2008/2009 – Special Report #04

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