County's Receivables and
Cash Handling

September 2009

Steve March
Multnomah County Auditor

Audit Staff
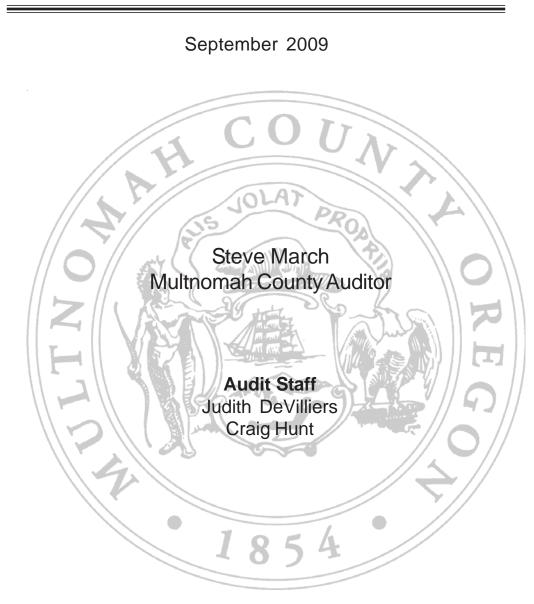Judith DeVilliers
Craig Hunt

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

Office of
Multnomah County Auditor

Steve March
County Auditor

501 SE Hawthorne Room 601
Portland, Oregon 97214
Phone: (503) 988-3320

Fran Davison
Judith DeVilliers
Joanna Hixson
Craig Hunt
Sarah Landis
Shea Marshman
Mark Ulanowicz

MEMORANDUM

Date: September 18, 2009

To: Ted Wheeler, Multnomah County Chair
        Deborah Kafoury, Commissioner, District 1
        Jeff Cogen, Commissioner, District 2
        Judy Shiprack, Commissioner, District 3
        Diane McKeel, Commissioner, District 4

From: Steve March, County Auditor
        Judith DeVilliers, Principal Auditor
        Craig Hunt, Principal Auditor

Re: Audit of County's Receivables and Cash Handling

The attached report covers our recent performance audit of the *County's Receivables and Cash Handling.* We reviewed selected revenues and receivables for fiscal year 2008. In our report we recommend improvements in three areas:

- Additional central oversight and procedures are needed to provide increased controls and consistency in how departments record revenues and manage their receivables and collections.
- Implementation of the SAP system's Public Sector Collections and Disbursements (PSCD) module for recording cash receipts would provide additional efficiencies and controls for most departments.
- Expanded use of electronic receipts would improve efficiency and provide better customer service.

We appreciate the cooperation and help we received from the county employees in all of the departments and offices we worked with. We also would like to thank the SAP team for their assistance in exploring the options for recording receivables.

cc: Mindy Harris, Acting Director, Department of County Management
        Jana McLellan, Chief Operating Officer
        Sherry Swackhamer, Chief Information Officer

Steve March
Multnomah County Auditor
501 SE Hawthorne, Room 601
Portland, Oregon 97214
Telephone (503) 988-3320
www.co.multnomah.or.us/auditor

Audit Staff:
Judith DeVilliers
Craig Hunt

County's Receivables and Cash Handling
September 2009

Executive Summary

Our review of revenues and accounts receivable focused on charges for goods or services, licenses, fees, permits, lease payments, dividends and rebates, fines, penalties, forfeiture revenues, and sales to the public. The total dollar value of these miscellaneous revenues are smaller than other revenues such as grants, property taxes, income taxes, interest, loans, contributions, contracts, and special assessments that we excluded from our scope. However, miscellaneous revenues included in our scope that were recorded in FY08 were approximately $49.2 million.

We found the county may be losing money from these miscellaneous revenues because there are no countywide collection efforts or reporting requirements for money due to the county. We could not determine the total amount due to the county because some receivables are not recorded in the financial system or reported to the General Ledger Unit. We also found that collection efforts are inconsistent among departments; aging of receivables for collection is done ad-hoc, if at all; and dunning, follow-up, and write-off processes are lacking. We recommend some form of central oversight to include creation of countywide rules and administrative procedures, a requirement for countywide reporting of receivables, delinquencies, and collection efforts made by departments.

We found most county programs that receive cash would greatly benefit from expanding their use of SAP. The SAP Public Sector Collections and Disbursements (PSCD) module provides efficiencies by eliminating the two-step process of setting up and clearing an accounts receivable for simple cash receipts. Other select features of the PSCD module would help some programs better manage cash and receivables.

Although the county uses some forms of electronic receipts, these could be expanded. The benefits of electronic receipts (such as debit and credit cards) include more satisfied customers, quicker cash deposits and availability, fewer bad checks, as well as other improved operational efficiencies such as decreased mail processing costs and over the counter traffic.

Our audit also recommends improvement in cash handling relating to segregation of duties for some departments and continued monitoring by Treasury for Payment Card Industry Data Security Standards (PCI) compliance.

Background, Scope, and Methodology

Accounts receivable represent money owed to Multnomah County by individuals, businesses, other governments or other organizations for goods and services already provided. Receivables should be recorded when the claim has become legally enforceable, measurable, and available. Ideally, payments should be collected at the time the county provides goods, services, or issues licenses, permits, fees or fines, rather than billing and collecting the money at a later date. When it is necessary to collect at a later date, customers should be billed and payments should be collected in a timely manner.

The objectives of our audit of accounts receivable were to determine:
- If county departments have sufficient controls in place over revenues and receivables to properly bill, collect, write-off, record, and monitor amounts due to the county
- If the county's financial system (SAP) could provide additional efficiencies and improved controls for recording and monitoring revenues and receivables
- If alternative electronic methods of payment are available to the county that would eliminate some receivables, speed up collections, and provide efficiencies or improved controls for revenue transactions

To accomplish our objectives, we reviewed all revenues by type and department for FY08. We narrowed our focus to include charges for goods or services, licenses, fees, permits, lease payments, dividends and rebates, fines, penalties and forfeiture revenues, and sales to the public. Appendix A shows examples of receivables within our scope including probation fees, health inspections, alarm permit fees, animal control fees, telecom charges, central stores sales, and other activities.

We excluded receivables for most types of taxes, grants, interest, loans, contributions, contracts and special assessments from the scope of our review. For example, we did not include revenue from property taxes, business or personal income taxes, money received from the federal or state government for county human service or health programs, funds received through private foundations, or intergovernmental charges for services such as work performed by the Sheriff's Office work crew for other jurisdictions.

We conducted interviews with department-level business managers as well as staff managing various programs within the departments. At the central level, we spoke with the Chief Financial Officer, Treasurer, and the SAP team. In addition to interviewing individuals responsible for managing revenues and receivables, we read available internal control documentation, budget program offers, and legal requirements. We also reviewed countywide policy and procedures.

Much of our work focused on gaining an understanding of internal controls and how revenues and receivables were managed at the program level. We reviewed audits of accounts receivable and policy and procedures from other jurisdictions. We researched available SAP accounts receivable reports. We also reviewed Payment Card Industry Data Security Standards information.

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

County needs central oversight to more effectively manage its receivables

The county may be losing money because there are no countywide collection efforts or reporting requirements for money due to the county. Managing and accounting for money owed to the county recorded as receivables is primarily left up to departments. While some programs in departments have well documented internal control procedures for how cash is handled and receivables are recorded and managed; others do not. Although the General Ledger Unit provides year-end and other guidance to departments, there are no countywide administrative procedures for recording receivables, aging receivables, collecting on delinquent accounts, or writing-off uncollectible receivables. Subsidiary systems maintained on other computer systems are not always reconciled to the general ledger.

We found many variations in departments' management and controls over receivables. Some receivables are recorded in the county's financial system (SAP). Programs that handle large volumes of transactions, such as Assessment and Taxation, the Library, and the Health Department have specialized subsidiary systems which maintain receivable balances. Money due to the county is also accounted for in smaller subsidiary systems such as Quick Books or Access. Not all departments report the year-end receivable balances recorded in their subsidiary systems to General Ledger.

We could not estimate the dollar value of receivables omitted from the county's financial records because the information was not available. We recognize that recording detail transactions directly to SAP is not always feasible. However, the year-end totals for all amounts due to the county should be included in countywide receivables for both control and financial reporting purposes.

We also found there are no countywide collection efforts or reporting for delinquent receivables. As a result, the county may be losing money. Department collection efforts and write-off processes are inconsistent, whether receivables are recorded in SAP or other subsidiary systems.

Aging of receivables is crucial to evaluate delinquent amounts for dunning and collection and to accurately estimate allowance for bad debts. For some departments, aging of receivables is only done on an ad-hoc basis. To determine amounts owed to the county that were past due, we aged receivables for general customer accounts recorded in SAP.

These accounts totaled $14,581,750 at June 30, 2009. We found 30% ($4.5 million) were over 90 days old. Of the over 90 day accounts, $177,809 were over one year past due.

Exhibit 1 shows general customer receivables at June 30, 2009. These amounts do not include grants or other special types of receivables. Also, we did not have information to include receivables not recorded in SAP.

Exhibit 1
General Customer Receivables Recorded in SAP at June 30, 2009

Number of days outstanding*	Item Count	Amount (in GL 72100)
0 - 29	541	$7,000,088
30 - 59	113	$2,037,138
60 - 89	39	$1,060,387
90 - 119	53	$1,224,910
120 - 359	144	$3,081,418
over one year	57	$ 177,809
Totals	947	$14,581,750
* There is no county policy for determining when a receivable is past due		

A higher level of oversight is needed to strengthen internal controls to account for money due to the county and improve collections of delinquent accounts. This oversight would include creating countywide administrative procedures for managing the accounting, controls, and collection for money due to the county. Also needed is some form of reporting of receivable transactions to include aging of past due balances, description of collection efforts, and any write-offs for all department receivables regardless of the subsidiary system used.

Increased use of Public Sector Collections and Disbursements (PSCD) for cash transactions can provide efficiencies and additional controls

Recording cash or payments received for any type of revenue into SAP is a two step process. Currently an employee must first enter a transaction that records the revenue and a receivable. Then a different employee creates a second transaction to reduce the receivable and record the cash. The system is not efficient because it will not allow a single transaction to record cash and revenue. This duplicate entry requirement also complicates SAP security for role assignments resulting in a large number of role conflicts between cash handling and recording receivables when there never was actually a receivable.

The county does have a solution with the SAP module PSCD, which is an accounts receivable module that includes cash receipting capabilities. Advantages to using PSCD,

in addition to elimination of duplicate postings, include more flexibility for cash handling, more timely information for Treasury cash management, and improvement of internal controls over recording cash. The PSCD module has three levels: bank deposit, cash receipting, and accounts receivable.

> Bank deposit.   The bank deposit level would eliminate double posting for cash receipts and create a standard process for posting bank deposits in the county. We looked at selected revenue transactions involving licenses, fines, sales, etc. and found an average of 220 transactions per day. Although some of these were legitimately receivable transactions, most were cash sales. We recommend that the bank deposit level of PSCD be used in all departments to eliminate the double posting for cash receipts.

> Cash receipting. The PSCD module at the cash receipting level is similar to the bank deposit level except that the system provides a customer receipt. This level is especially appropriate for programs with one-time fees or permits and does not require data on customers or receivables. The cash receipting level should be implemented for situations where a customer receipt is needed and to improve internal controls over cash handling.

> Accounts receivable. The highest level for PSCD is the accounts receivable level. The Sheriff's Office recently installed this level of PSCD for managing Alarm Permits, and another program is considering the features of this level to manage its receivables. This level of PSCD offers a complete receivables package including billing, monthly statements, cash receipting, dunning processes, as well as other features that may be useful for certain programs. We found a few cases where the accounts receivable level is needed.

The SAP steering committee, which includes the CFO, CIO, Human Resources Director, and SAP Manager, sets priorities for ongoing SAP development. As with all SAP modules, PSCD also requires a business process owner to provide coordination between the system and the countywide business users, such as is done for accounts payable and other SAP modules. Even within this structure, we believe that strong central leadership would be needed to effectively guide countywide implementation of PSCD.

Electronic receipt alternatives should be expanded

Our review of cash and receivables also included examining various electronic receipt alternatives. There are costs and benefits to receiving funds electronically. The benefits of electronic receipts include quicker deposits and availability, fewer bad checks, and other improved operational efficiencies such as decreased mail processing costs and over the counter traffic. However, there can also be new costs for transaction charges, training, and maintaining security standards. The county should consider the expansion of electronic collections in a strategic manner based on the type of collections and volume of transactions.

- Many departments currently offer some form of electronic receipts such as bank cards (debit and credit cards) including transactions over the internet, and telephone. Programs that receive cash from customers could encourage use of bank cards by asking the customers if they wish to use a card and by posting signs informing customers of the options to use bank cards for payments.

- ACH (Automated Clearing House) receipting should be further explored. ACH receipts are electronic transfers of money from the customer's bank to the county's bank. We believe increased use of this method will benefit the county in more immediate deposits and decreased risk of bad checks.
  - One form is ARC (Accounts ReCeivable entry), which is where the customer's mailed check is converted to an electronic transfer from his or her bank to the county's bank. The county uses ARC in Assessment and Taxation.
  - The county could also make arrangements with some types of customers for receiving payments through ACH, similar to arrangements with county vendors for payables. One opportunity for such and arrangement might be for monthly billings, such as for property leases.

- Another type of electronic receipt used by the county is State Treasury pool transfers from other jurisdictions in Oregon. Although these are generally for grants, they could be expanded to include the many sales and other transactions the county has with other jurisdictions. Some possibilities for increased use of state pool transfers might be Central Stores sales of medical supplies or other intergovernmental agreements with other Oregon jurisdictions.

Segregation of duties is needed in some departments
We found program areas in the county where receivable and cash receipt duties were not properly separated. Proper segregation of duties prevents one individual from having too much control over cash or receivables. For example, one individual can prepare bills, receive payments, post payments to the accounting system, authorize and record discounts, reconcile to general ledger, and try to recover uncollected receivables.

Lack of segregated duties increases the risk of mismanagement or fraud occurring and going undetected. In one instance, management explained that duties were not separated due to staff shortages. Increased supervision can help in this situation but incompatible duties should still be separated to the extent possible.

PCI compliance needs continued monitoring
The Payment Card Industry Data Security Standard (PCI) is a set of requirements designed to ensure that all companies that process, store, or transmit credit card information maintain a secure environment to protect cardholder information. PCI is promulgated by the PCI Security Standards Council, a group founded by credit card companies. PCI is enforced through the contract Multnomah County has with its bank.

The county is required to comply with PCI standards because it collects funds over the internet and via customer credit or debit cards. As of June 2009, the county had 49 credit/debt card readers. For the first 5 months of 2009, the county had 37,390 credit/debit card transactions for a total of $1.28 million. Management informed us that no credit card information is stored on county computers.

Should Multnomah County experience a data compromise and fail to prove PCI compliance, penalties could include increased credit card transaction fees, restrictions on acceptance of debit/credit cards, fines, and loss of public trust.

Initially, we found that the county could not validate compliance with the PCI standards. When we brought this to their attention, the county completed the self assessment questionnaire that is necessary to validate compliance. The county is also investigating the need to have a network scan completed by an approved scanning vendor. Treasury should continue to work with IT Security to monitor PCI compliance and to ensure employees who administer e-payment or process payment card transactions are well trained.

Recommendations

1. To provide central oversight to effectively manage receivables, the Chief Financial Officer should develop administrative procedures for accounts receivable that:
    a. Require regular aged accounts receivable reports
    b. Address collection efforts, delinquent accounts, and allowances for bad debts.
    c. Expands current write-off guidance to include:
        i. A list of collection efforts that are needed before an account is written off.
        ii. Criteria for a write-off and materiality levels.

2. General Ledger should ensure administrative procedures are followed by departments.

3. Where appropriate, departments should record their receivables in SAP on an ongoing basis or, at minimum, as part of year-end closing to allow proper monitoring of accounts receivable, ensure financial records are accurate and improve controls.

4. PSCD should be implemented for most departments at the bank deposit or cash receipting level to avoid the inefficiencies of setting up and clearing an accounts receivable for simple cash receipts.
    a. In certain cases, the full receivable level of PSCD may be needed to include details for customer accounts, aging, dunning and recording of subsequent collection activities
    b. Central leadership is needed to effectively implement PSCD in departments
    c. A business process owner is needed to provide coordination between the system and the countywide business users

5. The county should strategically pursue all electronic methods of collections based on the type of collection and volume of receipts.

6. Incompatible accounts receivable duties should be separated to decrease the risk of mismanagement or fraud. Increase supervisor oversight if some receivable duties remain incompatible.

7. Treasury should work with IT Security to monitor PCI compliance and to ensure employees who administer e-payment or process payment card transactions are well trained.

Appendix A

Billable Services (note 1)

Department	Type of Service	Estimated Revenues-FY08
Health Department	Client Fees	$3,619,900
	Inspections	$2,397,500
	Vital Records (note 2)	$594,000
	Immunizations	$62,300
	Traveler's Clinic	$406,500
	Occupational Health	$40,700
	Ambulance Fees	$1,018,500
Department of Community Justice	Probation Fees	$1,278,000
	Enhanced Bench Probation	$216,200
	Alternative Community Services	$15,100
Sheriff's Office	Alarm Permits and Fines	$236,000
	Corrections Supplies	$8,600
	Boat Fuel	$15,000
	Work Crew (note 3)	$2,100
Library	Library Fines	$1,183,000
	ECR Merchandise	$71,500
Department of County Human Services	Public Guardian	$145,900
	Adult Care Home Fines	$33,600
Department of County Management	Central Stores for external customers	$2,549,000
	Property Space Rentals for external customers	$1,944,500
	Animal Control	$1,123,300
	IT Service Charges for external customers	$81,700
	Telecom Charges for external customers	$477,900
	Right of Way Permits	$73,800
	Land Use Planning Fees	$117,700
	Land Corner Preservation Fees	$757,400
	Surveyor Fees	$250,800
District Attorney	Discovery Fees	$288,500

1 Not all revenues shown were billed; some were collected at the time the service was rendered or paid and no invoice was issued

2 Includes birth certificates which is accounted for on a cash basis

3 Does not include services performed for other governments

Response to the Audit

Department of County Management
MULTNOMAH COUNTY OREGON
501 SE Hawthorne, Suite 531
Portland, Oregon 97214
(503) 988-3312 phone
(503) 988-3292 fax

MEMORANDUM

TO: Steve March
            County Auditor

FROM: Mindy Harris, CFO
            Sherry Swackhamer, CIO

DATE: September 10, 2009

RE: Response to Audit of Receivables and Cash Handling

Thank you for your audit report on the County's Receivables and Cash Handling.   We appreciate the opportunity to work with you to improve the County's collection and handling of our many different fees and charges. Improving our controls and efforts in this area will potentially help us increase our revenues in these areas, in addition to providing greater controls over the County's funds.

Central oversight will begin with the development of administrative procedures that will provide departments with the appropriate guidance and instructions for collection of fees and charges. New procedures will include language and guidance regarding separation of duties and internals controls. Where traditional separation of duties is not possible due to the small size of a team, strategies for increasing supervisory responsibilities and oversight will be described. Once the procedures are developed, adequate training will be provided to departmental fiscal and supervisory staff to educate and inform staff of the new procedures and industry best practices.

We agree that the SAP module, Public Sector Collection and Disbursement (PSCD), has many opportunities beyond those currently being utilized. We are actively identifying fees and fee collection processes that can be migrated to this module. We are also evaluating the expanded use of this module along with a variety of other proposals for further development of the County's use of SAP.

The audit noted that the County should pursue increased use of electronic methods of fee collection to, among other benefits, improve cash flow, reduce uncollectible funds, and improve operational efficiencies. Over the past two years, we have made significant strides in increasing the use of electronic payment methods in our Payroll and Accounts Payable areas, and have realized the many benefits described in the audit report. The next logical area to increase efforts in electronic funds processing will be related to collection of fees and charges and we will pursue implementation of electronic collection methods in the ongoing development of the SAP-PSCD module. Implementation of any new functionality in SAP will include adequate training of the use of the module as well as security training in the use of the electronic tools.

Again, we appreciate your recommendations for improvement of the County's collection and handling of our many fees and charges. We look forward to working with you to implement new efforts to potentially increase fee revenue as well as establish greater consistency and internal controls over these revenues.

C: Jana McLellan, Chief Operating Officer
       Satish Nath, SAP Manager