



# City of Houston

Annise D. Parker  
City Controller

## City-Wide Accounts Receivable and Billings Internal Audit

Health and Human Services Department

Report No. 04-30



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

December 2, 2004

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit  
Health and Human Services Department (Report No. 04-30)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed an Accounts Receivable and Billings Internal Audit pertaining to the Health and Human Services Department (Department). The purpose of the audit was to assist management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. Additionally, the audit determined if the Department has developed and implemented written accounts receivable policies and procedures which address the requirements of Executive Order No. 1-38 (Accounts Receivable Policy).

The report, attached for your review, noted that the City's financial system does not routinely account for the Department's receivables, other than returned check receivables. Various recommendations were made to improve the Department's controls over the accounting and reporting of receivables. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible officials as to actions being taken are appended to the report as Exhibit A.

We appreciate the cooperation extended to the JWI auditors by Department personnel during the course of the engagement.

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Stephen Williams, M.Ed, MPA, Director, Health and Human Services Department  
Judy Gray Johnson, Director, Finance and Administration Department

October 1, 2004

Ms. Annise D. Parker  
City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, TX 77002

Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Health and Human Services Department (Department) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report documents our final report for the Department. A report summarizing significant issues identified across the departments will be issued at the conclusion of the City-wide engagement when the internal audit procedures have been completed for all City departments.

Our observations and recommendations noted during the performance of the procedures are presented in this report and views of responsible officials are attached as Exhibit A. Our procedures, which accomplished the project objectives, were performed through April 15, 2004 and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells International is pleased to have assisted the City Controller and we appreciate the cooperation received during this engagement from the Health and Human Services Department as well as your office.

This report is intended solely for the information and use of the City, the Department and the City Controller's Office, and is not intended to be used for any other purpose.





## Project Scope & Objectives

### Scope:

This internal audit was performed to assist City management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. The scope of this report is the revenues and receivables managed by the Health and Human Services Department.

### Objectives:

- ✍ Determine whether all receivables managed by the Department are recorded in the City's financial records.
- ✍ Determine whether there are receivables that are not recorded in the City's books.
- ✍ Review and evaluate the type of records that are maintained to support the receivables.
- ✍ Determine what steps, if any, are being performed to collect the outstanding receivables.
- ✍ Determine whether billing systems are in place to bill timely those persons/entities that may owe the City monies.
- ✍ Determine whether the Department has developed and implemented written accounts receivable policies and procedures, which address the requirements of Executive Order No. 1-38 (Account Receivable Policy).



## Procedures Performed

- ✍ Requested and gathered pertinent documents related to the Department's revenue sources, including written accounts receivable procedures applicable to each of its sources of revenue.
- ✍ Compiled a preliminary list of revenue sources for the Department.
- ✍ Identified and scheduled interviews with key financial personnel for the Department.
- ✍ Interviewed key Departmental personnel and obtained an understanding of the Department's process, as applicable, related to:
  - ✍ Capturing each transaction that results in a source of revenue/receivable;
  - ✍ Timing of revenue/receivable recognition;
  - ✍ All applicable accounting entries;
  - ✍ Billing systems for monies owed the City; and
  - ✍ Monitoring and collection of accounts receivable, including supporting documentation.
- ✍ As applicable, for each of the Department's revenue/receivable source that involves the generation of a bill for monies owed the City:
  - ✍ Traced each receivable source to the City's financial system;
  - ✍ Determined whether the applicable billing system had been designed to mitigate the risk of bills not being generated on a timely basis; and
  - ✍ Determined whether the described billing system is in-place and operating effectively.



## Procedures Performed (continued)

- ✍ As applicable, reviewed the Department's written policies and procedures and determined compliance with Executive Order No. 1-38, Accounts Receivable Policy, specific to:
  - ✍ Appropriate Authorization;
  - ✍ Cost Recovery;
  - ✍ Transaction Processing;
  - ✍ Physical Safeguards;
  - ✍ Substantiation and Evaluation;
  - ✍ Determination of net realizable value;
  - ✍ Identification of accounts to be recommended to the Mayor and City Council for write-off approval;
  - ✍ Determination of appropriate allowance for doubtful accounts;
  - ✍ Preparation of accounts receivable aging analysis, aged cash receipts, and cash collections percentage reports; and
  - ✍ The use of the reports mentioned above to evaluate collectibility, target accounts requiring more aggressive collection efforts, and target accounts that yield better collections results.



## Revenues & Receivables Overview

### Background

- ✧ The Health and Human Services Department generally provides its services from general tax revenues. However, the Department generates revenue arising from the following revenue streams:
  - ✧ **Grant Revenues** – Reimbursement for direct program costs and indirect costs incurred to fund health services generally related to disease control;
  - ✧ **Charges for Services** – Revenue pursuant to the providing of certified copies of vital statistics records, laboratory service charges, health clinic services, parking, etc.;
  - ✧ **Inspections and Permits** – Fees and fines associated with inspections and permit issuance for various health and environmental permits, including food, animal control, swimming pools, waste transport, etc.;
  - ✧ **Building Rental** - Consisting of lease payments for space within the City's eight multi-service centers;
  - ✧ **Medicaid Title XIX and XX** – Medicaid recoveries for services rendered in the health centers and clinics; and
  - ✧ **Miscellaneous Revenue** – Revenue earned from the forfeiture of deposits on daily facility rental fees, copies, open records requests, and returned check fees.

### Summary

- ✧ The City's financial system does not routinely account for the Department's receivables, other than returned check receivables.
- ✧ Grant receivables are not recorded within the City's financial system until received.
- ✧ Other service receivables and facility rentals are not recorded as billed or earned, but rather when received.
- ✧ Monitoring and reconciling activity of insufficient fund returned check receivables should be improved.



## Revenues & Receivables Overview

	<u>2004 Annual Budget</u>	<u>Receivables are Generated</u>	<u>Receivables are Recorded</u>	<u>Accounting is in Accordance with GAAP</u>
<b>Revenues:</b>				
✍ Grant Revenues	\$ 48,000,000	X	no	no
✍ Charges for Services	2,720,000	X	X	no
✍ Inspections and Permits	6,364,000	no	n/a	n/a
✍ Building Rental	586,000	X	no	no
✍ Medicaid Title XIX and XX	1,275,000	X	†	X
✍ Other Revenue	311,000	no	X	X

### Definition of Terms:

- ✍ **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- ✍ **†** – Receivable is recorded when the amount is determinable.
- ✍ **Receivables** – The resulting asset when revenue has been earned but no payment is made at the point the service or good is provided (normally the result of a bill being generated).





## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Appropriate Authorization	<ul style="list-style-type: none"> <li>✍ The City has established all non-interfund service fees charged by the Department through City Ordinances.</li> <li>✍ Grant revenues reimbursing indirect costs are supported by an approved cost allocation plan.</li> <li>✍ Building rentals are supported by formal lease agreements; receivables arise only when lease payments are not received timely.</li> <li>✍ The Department does not have formal policies and procedures as required by the Executive Order, but does have desk procedures and has initiated a project to complete formal policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>✍ Recommend the Department complete the development of their formal policies and procedures as required by the Executive Order.</li> </ul>	Low
Cost Recovery	<ul style="list-style-type: none"> <li>✍ The Department has cost recovery grants, and as such, generates a receivable as reimbursable grant expenditures are incurred. However, grant receivables are not recorded, rather revenue is recognized upon receipt of the reimbursement.</li> </ul>	<ul style="list-style-type: none"> <li>✍ Risks - All receivables are not recorded, and disallowed expenditures could be charged to the grant and not be detected for a period of time.</li> <li>✍ Recommend, for improved accountability, that a receivable be recorded as a reimbursement request is submitted. Collection of an amount other than the receivable could then enable a timely reconciliation /follow-up.</li> </ul>	Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<p><i>Charges for Services:</i></p> <ul style="list-style-type: none"> <li>☞ Service revenues are generally collected at the point of sale or service, with the exception of certain laboratory customers who are billed monthly.</li> <li>☞ Billings are monitored through an AS400 system, which is not integrated with the City's financial system.</li> <li>☞ Laboratory service receivables are not recorded on the City's financial system.</li> <li>☞ As of October 2003, a report from the AS400 system reported receivables totaling \$16,032.</li> </ul> <p><i>Inspection and Permit Revenues:</i></p> <ul style="list-style-type: none"> <li>☞ Cash basis at the time of service or permit issuance. Receivables only result from returned checks, which are recorded by Finance &amp; Administration and collected by the Department.</li> </ul>	<ul style="list-style-type: none"> <li>☞ All of the Department's receivables are not recorded within the Department's fund accounting. Controls over receivable would be enhanced if all receivables were recorded in the City's financial system.</li> <li>☞ The Department would benefit from enhanced system capability for the maintenance of detail subsidiary ledgers, generation of aging and monitoring reports, integration with the City's financial system and application controls over receivable adjustments.</li> </ul>	Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing (Continued)	<p> <i>Grant reimbursable costs</i> –are tracked on various schedules and forwarded to the appropriate grantor agency. Generally, payments are received via wire transfer. The receipt of the wire transfer triggers recording of the grant revenue.         </p> <p> <i>Building Space Revenue</i> – is recorded as received and all amounts are supported by executed lease agreements. Past due amounts and late fees are tracked with an Access database which reflected a total outstanding receivable balance of \$100,151 in December 2003.         </p> <p> <i>Medicaid Title XIX and XX</i> –are billed for service provided through the health centers. Explanation of Benefits (EOBs) are reviewed, corrected and resubmitted and remittances processed to maximize revenue as allowed under the regulations.         </p> <p> <i>Revenue trends and transactions</i> are monitored through a review of recorded amounts within the City’s financial system.         </p>		Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Physical Safeguards	<p>The Department has cash handling controls that serve to improve segregation of duties and reconcile cash activity on revenues collected with the Department's systems.</p>	<p>Risk Noted: As described above, the Department's systems for tracking receivables do not mitigate the risk of theft or misappropriation. See recommendations above.</p>	Moderate
Substantiation and Evaluation	<p>See transaction processing above. Further, based on a review of one month's activity – detail support exists for receivables.</p>	<p>See recommendations noted under transaction processing above.</p>	Moderate
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<p>Validation of realizable value is determined only as receivables are collected and revenue recorded. As such, all recorded revenue is realizable, but no determination is made on unrecorded receivables.</p> <p>The Department pursues collection on past-due accounts.</p>	<p>Periodically receivables should be assessment as to their realizable value. This assessment should serve to prioritize collection efforts and on-going fees, late payment penalties, etc.</p>	Moderate
Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts <i>(Minimum Annually)</i>	<p>See determination of realizable value – procedures do not include determination of allowances for doubtful accounts, since revenue is recorded on a cash basis.</p> <p>Reconciling of insufficient fund returned check receivables is ongoing, however historical balances have unreconciled historical adjustments that should be recorded.</p>	<p>See determination of realizable value.</p>	Low



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Preparation of Reports & Analysis	<ul style="list-style-type: none"> <li>☞ Revenue trends are monitored using financial statement and budget to actual reports.</li> </ul>	<ul style="list-style-type: none"> <li>☞ No formal or regular receivable monitoring reports are prepared. For each type receivable, long overdue or larger outstanding amounts should be reported and reviewed.</li> </ul>	Low
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none"> <li>☞ The Department uses the AS400 system and various Access databases referred to earlier in this report to evaluate collections and take steps to improve collections.</li> <li>☞ Generally the Department seeks action from the City's Legal Department to pursue collections.</li> </ul>	<ul style="list-style-type: none"> <li>☞ As recommended above, the Department would benefit from a system that could track and age report all receivables consistently.</li> </ul>	Moderate

# EXHIBIT A




## CITY OF HOUSTON

Health and Human Services  
Department

## Interoffice

Correspondence

To: Annise D. Parker  
City Controller

From:   
Stephen J. Williams, M.Ed, MPA  
Director

Date: October 4, 2004

Subject: Compliance Analysis Overview of EO  
#1-38

Attached is the Department of Health and Human Services response to the internal audit on Executive Order #1-38, Accounts Receivable and Billings. The audit was performed by JeffersonWells.

Questions regarding this response should be directed to Sally Switek at 713-794-9137.

*Views of Responsible  
Officials*

**City-Wide Accounts Receivable and Billings  
Internal Audit  
Health and Human Services Department  
Response**

<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Appropriate Authorization	<ul style="list-style-type: none"> <li>* The City has established all non-interfund Service fees charged by the Department through city Ordinances.</li> <li>* Grant revenues reimbursing indirect costs are supported by an approved allocation plan.</li> <li>* Building rentals are supported by formal lease agreements; receivables arise only when lease payments are not received timely.</li> <li>* The Department does not have formal policies and procedures as required by the Executive Order, but does have desk procedures and has initiated a project to compile formal policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>* Recommend the Department complete the development of Their formal policies and procedures as required by the Executive Order.</li> </ul>

**RESPONSE**

**The Department has developed a draft Accounts Receivable Policy in response to Exexecutive Order 1-38.**

<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Cost Recovery	<ul style="list-style-type: none"> <li>* The Department has cost recovery grants, and As such, generates a receivable as reimbursable grant expenditures are incurred. However, grant receivables are not recorded, rather revenue is recognized upon receipt of the reimbursement.</li> </ul>	<ul style="list-style-type: none"> <li>* Risks – All receivables are not recorded, and disallowed expenditures could be charged to the grant and not be detected for a period of time.</li> <li>* Recommend, for improved accountability, that a receivable be recorded as a reimbursement request is submitted. Collection of an amount other than the receivable could then enable a timely reconciliation /follow-up.</li> </ul>

**RESPONSE**

**The Department follows guidelines issued by the Finance and Administration and City Controller Departments to record revenue from reimbursement type grants.**



<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Transaction Processing	<p data-bbox="600 129 859 166"><i>Charges for Services</i></p> <ul style="list-style-type: none"> <li data-bbox="600 166 1201 301">* Service revenues are generally collected at the point of sale or service, with exception of certain laboratory customers who are billed monthly.</li> <li data-bbox="600 338 1201 437">* Billings are monitored through an AS400 system, which is not integrated with the City's financial system.</li> <li data-bbox="600 474 1201 535">* Laboratory service receivables are not recorded on the City's financial system.</li> <li data-bbox="600 572 1201 640">* As of October 2003, a report from the AS400 system reported receivables totaling \$16,032.</li> </ul>	<ul style="list-style-type: none"> <li data-bbox="1219 129 1705 375">* All of the Department's receivables are not recorded within the Department's fund accounting. Controls over receivable would be enhanced if all receivables were recorded in the City's financial system.</li> <li data-bbox="1219 437 1705 708">* The Department would benefit from enhanced system capability for the maintenance of detail subsidiary ledgers, generation of aging and monitoring reports, integration with the City's financial system and application controls over receivable adjustments.</li> </ul>
	<p data-bbox="600 671 988 708"><i>Inspection and Permit Revenues</i></p> <ul style="list-style-type: none"> <li data-bbox="600 708 1201 843">* Cash basis at the time of service or permit issuance. Receivables only result from returned checks, which are recorded by Finance and Administration and collected by the Department.</li> <li data-bbox="600 843 1201 1050">* Grant reimbursable costs – are tracked on various schedules and forwarded to the appropriate grantor agency. Generally, payments are received via wire transfer. The receipt of the wire transfer triggers recording of the grant revenue.</li> </ul>	

<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Transaction Processing (continued)	<ul style="list-style-type: none"> <li>* Building Space Revenue – is recorded as received and all amounts are supported by executed lease agreements. Past due amounts and late fees are tracked with an Access data base which reflected a total outstanding receivable balance of \$100,151 in December, 2003.</li> <li>* Medicaid Title XIX, and Title XX – are billed for service provided through the health centers. Explanation of Benefits (EOBs) are reviewed, corrected and resubmitted and remittances processed to maximize revenue as allowed under the regulations.</li> <li>* Revenue trends and transactions are monitored through a review of recorded amounts within the City's financial system</li> </ul>	

**RESPONSE:**

**Currently tracking of cash receipts and aging capability is not functional in the City's financial system. Until the City acquires a new financial system that has the ability to track and age receivables, we will continue to use our stand alone systems. With a new system expected within the next 2 years, it would not be feasible to build an interface between our systems and the City's system at this time.**

<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Physical Safeguards	* The Department has cash handling controls that serve to improve segregation of duties and reconcile cash activity on revenues collected with the department's systems.	* Risk Noted: As described above, the Department's systems for tracking receivables does not mitigate the risk of theft or misappropriation. See recommendation above.

**RESPONSE**

**Currently tracking of cash receipts and aging capability is not functional in the City's financial system. Until the City acquires a new financial system that has the ability to track and age receivables, we will continue to use our stand alone systems. With a new system expected within the next 2 years, it would not be feasible to build an interface between our systems and the City's system at this time.**

Substantiation and Evaluation	* See transaction processing above. Further based on a review of one month's activity-detail support exists for receivables.	* See recommendation noted under transaction processing above.
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**RESPONSE**

**See above response**

Determination of Net Realizable Value (Minimum of Annually)	* Validation of realizable value is determined only as receivables are collected and revenue recorded. As such, all recorded revenue is realizable, but no determination is made on unrecorded receivables accounts.	* Periodically receivables should be assessed as to their realizable value. This assessment should serve to prioritize collection efforts and on-going fees, late payment penalties, etc.
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**RESPONSE**

**Receivable values are assessed on a monthly basis. Write off determinations are made on an annual basis.**

<b>Compliance Area</b>	<b>Controls Noted</b>	<b>Issues Noted</b>
Identification of Accounts to Be written-off / Determination of an Appropriate allowance for Doubtful accounts	<ul style="list-style-type: none"> <li>* See determination of realizable value-procedures to not include determination of allowances for doubtful accounts, since revenue is recorded on a cash basis.</li> <li>* Reconciling of insufficient fund returned check receivables is ongoing, however historical balances have unreconciled historical adjustments that should be recorded.</li> </ul>	<ul style="list-style-type: none"> <li>* See determination of realizable value.</li> </ul>

**RESPONSE**

Accounts to be written off are determined by Business Management when all efforts of collection have failed. The write-offs are approved by the Deputy Director and forwarded to the Controller's office for adjustment.

Preparation of reports & Analysis

\* Revenue trends are monitored using financial statement and budget to actual reports.

\* No formal or regular Receivable monitoring Reports are prepared. For each type receivable, long overdue or larger outstanding amounts should be reported and reviewed.

**RESPONSE**

Receivable monitoring reports are prepared for the laboratory receivables, multiservice center leases, insufficient fund checks and grant reimbursements.

<u>Compliance Area</u>	<u>Controls Noted</u>	<u>Issues Noted</u>
Use of reports to evaluate And improve collections	<ul style="list-style-type: none"> <li>* The Department uses the AS400 system and various Access databases referred to earlier in this report to evaluate collections and take steps to improve collections.</li> <li>* Generally, the Department seeks action from the City's Legal Department to pursue collections.</li> </ul>	<ul style="list-style-type: none"> <li>* As recommended above, the Department would benefit from a system that could track and age report all receivables consistently.</li> </ul>
<p><b>RESPONSE:</b>  <b>Currently tracking of cash receipts and aging capability is not functional in the City's financial system. Until the City acquires a new financial system that has the ability to track and age receivables, we will continue to use our stand alone systems. With a new system expected within the next 2 years, it would not be feasible to build an interface between our systems and the City's system at this time.</b></p>		