

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Christopher Stephens, Director, Resource Management Agency

Date: October 27, 2008

From: Christine L. Cohen

Subject: FOLLOW-UP AUDIT OF THE RESOURCE MANAGEMENT AGENCY'S ADMINISTRATION
OF ACCOUNTS RECEIVABLE

EXECUTIVE SUMMARY

We have completed our follow-up audit of accounts receivable management for the Resource Management Agency (RMA). Our overall audit objective was to determine whether proper corrective actions were implemented by RMA management to address the issues noted in our prior audit report dated December 16, 2004. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

Overall, we found that RMA corrected several issues identified in the previous audit. Notably, implementation of the Permits Plus operating system in the Planning Division has increased the accuracy and efficiency of charges tracked for accounts receivable. Furthermore, charges recorded in Permits Plus appeared to be properly reflected in Solomon, the accounts receivable system maintained by the Operations Division. Additionally, Weights and Measures improved the aging of fees due within the Equimetric operating system. Also, both the Building and Safety Division and the Operations Division appeared to maintain adequate segregation of duties while properly safeguarding collections.

However, several prior conditions still needed management's attention to improve the accounts receivable process. Specifically, improvement could be achieved by:

- Strengthening processes related to uncollectible accounts, permit issuance, account adjustments, and safeguarding of collections within the Planning Division.
- Implementing procedures for controlling fee adjustments, segregating duties, and ensuring the accuracy of fees in the Equimetric operating system within the Weights and Measures Division.
- Limiting access to the safe within the Environmental Health Division.
- Facilitating timely requests for grant reimbursement by the Operations Division.

RMA management initiated corrective action to address our findings. Corrective action is planned to be completed by September 30, 2009.

Christopher Stephens, Director, Resource Management Agency

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We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Peter Foy, Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable John K. Flynn, Board of Supervisors
Marty Robinson, County Executive Officer

**FOLLOW-UP AUDIT OF THE RESOURCE MANAGEMENT AGENCY'S
ADMINISTRATION OF ACCOUNTS RECEIVABLE**

BACKGROUND:

The Resource Management Agency (RMA) is comprised of five divisions: Building and Safety; Environmental Health; Operations; Planning; and Weights and Measures. RMA's accounts receivable mainly consist of unpaid fees for land development and other miscellaneous permits through the Planning Division. Additional payments due to RMA consist of unreimbursed grant expenditures and fees due for construction permits, environmental health activities, and commercial weighing devices.

Each division uses a separate system to record accounts receivable related transactions. RMA recorded over \$17 million in revenues during fiscal year 2006-07 and reported over \$1.2 million in revenue accruals as of June 30, 2007.

SCOPE:

Our overall audit objective was to determine whether proper corrective actions were implemented by RMA management to address the issues noted in our prior audit report dated December 16, 2004. Our audit efforts were focused specifically on issues identified for each division in the previous audit.

Specifically, for the Planning Division, we determined whether lists of outstanding and uncollectible accounts were maintained and reported properly, and we verified that collection efforts were sufficient. We also reviewed project closing procedures to ensure that Planning permits were released only after outstanding balances were paid-in-full. In addition, we evaluated actions taken to authorize adjustments to accounts receivable records for the Planning Division and fees due for the Weights and Measures Division. We also confirmed that outstanding fees were aged accurately for the Weights and Measures Division. Further, we evaluated internal controls to safeguard cash and properly segregate duties for each division within RMA, and we evaluated actions taken to improve the management of grants.

We performed audit tests and evaluations using documents provided by each RMA division and the Auditor-Controller's Office. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period April 2007 through April 2008.

FINDINGS:

Overall, we found that RMA had made some progress in improving the management of accounts receivable. Notably, Planning's Permits Plus operating system had been implemented since the prior audit, which appeared to accurately track account charges for Planning customers. In addition, records in Permits Plus appeared to be accurately reflected in the Solomon accounts receivable system managed by the Operations Division. We also noted that Planning's collection efforts were aided with periodic billing statements through Solomon for outstanding accounts.

We also verified that corrective action had been taken to age outstanding fees properly within the Weights and Measures operating system, Equimetric. Further, we found that cash collections appeared to be

adequately safeguarded and duties appeared to be properly segregated for both the Building and Safety Division and the Operations Division.

However, several prior conditions still needed management's attention to improve the accounts receivable process. Specifically, our follow-up audit disclosed the continuing need for the Planning Division to strengthen processes related to uncollectible accounts, permit issuance, account adjustments, and safeguarding of collections. The Weights and Measures Division also needed to address prior audit issues regarding fee adjustments and segregation of duties as well as new issues related to the accuracy of Equimetric records noted during this follow-up audit. Further, we identified continuing opportunities to strengthen access controls to Environmental Health's safe and to facilitate timely requests by the Operations Division for grant reimbursements.

Summarized below are details of the areas where further improvements were needed. The findings are organized by division to distinguish opportunities for improvement within each division. We did not identify any follow-up issues requiring attention by the Building and Safety Division in this report. RMA management initiated corrective action during the audit as noted.

1. **Planning.** Certain procedures had not yet been implemented for the Planning Division since the prior audit to assist in the management and collection of accounts receivable. Specifically, we noted that: a policy needed to be formalized to manage "uncollectible" accounts; permits were sometimes issued with outstanding balances; adjustments to accounts receivable records could be made without authorization; and collections were not properly safeguarded.

A. **Policy on Uncollectible Accounts.** Although Planning maintained records of outstanding accounts through Permits Plus and Solomon, a formal policy regarding "uncollectible" accounts has not been established. As a result, certain older accounts have not been identified as uncollectible and discharge from accountability has not been requested from the Auditor-Controller in accordance with Government Code 25258. For example, Planning's accounts receivable aging report for December 2007 listed eight permits with over \$15,000 in fees that were more than 4 years old from 2002 and 2003. Without a policy in place, RMA may continue to carry these older balances without sufficient monitoring, follow-up, or discharge from accountability.

Management Action. RMA management concurred with the finding and stated: "Operations Fiscal administers and maintains the Solomon billing system which records accounts activity. In FY 07-08, due to transition in staff, there was a delay in submitting the list of uncollectible accounts. The list was provided to the Auditor-Controller's office in July 2007. Currently, Operations is preparing the FY 08-09 list of uncollectible accounts for discharge from accountability. A formal policy which includes the annual review of accounts will be completed by June 30, 2009."

B. **Permit Issuance.** Permits were sometimes issued before balances were paid-in-full. Although RMA stated that procedures require all fees to be paid before a permit is issued, our tests disclosed outstanding charges on 9 (64%) of 14 permits issued during November and December 2007. RMA explained that permits may reflect outstanding charges due to additional fees related directly to the issuance of the permit or delays by other County departments in notifying RMA of additional charges. However, three of the nine permits reflected charges up to 2 months prior to the permit issuance date. Also, no additional information was provided to illustrate that any of the

nine permits had charges directly related to issuance or delays by other departments. Of the nine permits issued, fees for one permit remained unpaid as of April 2008. Therefore, formal procedures needed to be established to withhold the release of permits until all fees are paid to improve the collection of outstanding accounts.

Management Action. RMA management concurred with the finding and stated:

"The FY 08-09 Planning Fee Schedule outlines the payment process for applicants. Applicants sign a reimbursement agreement acknowledging that their initial deposit is not the full cost of the permit and that they are responsible for all costs subject to finance charges if not paid timely. Generally, upon case closeout the applicant is sent a final bill listing the balance due. Procedurally, Planning and Operations mitigate the potential for large outstanding balances before permits are issued.

"There are a variety of permit types with each one having a unique process. As part of its permit processing procedures, prior to every major milestone of the project (i.e., hearing, approval, recordation), the case planner will notify the applicant that all outstanding balances due must be paid before moving on to the next milestone. For example, prior to permits being issued and/or projects being recorded, the case planner works with Operations Fiscal to determine the balance due and estimate final costs. The case planner then notifies the applicant of the amount and the need to remit payment prior to permit issuance or recordation. The nature of planning permits is that they are not all exactly the same or absolutely predictable. Therefore, the estimated final costs are sometimes inaccurate and it is necessary to send a bill after the permit issuance or recordation. In some cases, the applicant is due a refund. This practice is consistent with the current Fee Schedule.

"For FY 09-10, the Planning Fee Schedule will be explored on how to incorporate language that will require all balances due before onset of the next milestone. Where appropriate, additional required deposits for milestones will be considered and recommended in the next Fee Schedule update."

- C. **Adjustments.** Controls were not always sufficient to ensure that all adjustments made to Planning accounts were accurate and authorized within the Solomon accounts receivable system.
- i. **Accounting for Adjustments.** Because Solomon does not provide a list of accounts receivable adjustments, management could not be assured that all adjustments were documented and authorized. Although authorized Solomon adjustment records were added to the clients' case files, no assurance existed that all adjustments within Solomon were recorded and included in the appropriate case file. Without a mechanism to capture the total amount of adjustments made on a daily or other periodic basis for management review, accounts could be susceptible to unauthorized and improper alteration.

Management Action. RMA management concurred with the finding and stated: "During the course of audit field work, a system-generated report from Solomon was not available. Since then, a report has been identified that lists all adjustments made during a specific period. The report lists the customer, type of transaction, and amount. The report will be reviewed on a monthly basis to ensure that adjustments have proper authorizations."

- ii. **Standardizing Procedures.** A standard documentation procedure was needed to ensure that all account adjustments were properly authorized. For example, our review of documentation for three account adjustments disclosed that approval methods were not consistent. Specifically, two adjustments were authorized by e-mail from the Planning Director. The third adjustment was authorized in a memorandum from the Planning Director and signed by the RMA Director with minimal explanation for the adjustment. Therefore, standardizing the authorization process would help clarify the approvals needed, the method for obtaining approvals, and the documentation to be retained to support the rationale for adjustments.

Management Action. RMA management concurred with the finding and stated: "Currently, Planning utilizes a standard memo form which documents the reason for adjustments and additional explanation. The memo is authorized by the Planning Director. The use of the memo will be enforced. Operations Fiscal may authorize adjustments for finance charges only and will begin using the same form as Planning to document changes."

- D. **Safeguarding Cash.** Improvements were needed to properly safeguard collections within the Planning Division. During the day, a \$50 change fund and all collections received from transactions, which amounted to approximately \$4,300 in currency and \$312,000 in checks during January 2008, are kept in a drawer behind the Planning desk. However, the keys to the drawer remain in the drawer during the day, thus leaving the drawer unlocked and the collections unsecured during business hours.

Management Action. RMA management concurred with the finding and stated: "The change fund and collections are now secured and locked at all times during the day. The drawer key is kept in a separate location."

2. **Weights and Measures.** Improvements were still needed to strengthen the tracking of fees due in the Weights and Measures Division to ensure adequate authorization for fee adjustments and proper segregation of duties. Our follow-up audit also disclosed additional measures needed to properly account for annual and late fees within the Weights and Measures operating system, Equimetric.

- A. **Adjustments.** Attention was needed to ensure that all fee adjustments made in Equimetric were accurate, authorized, and documented.

- i. **Accounting for Adjustments.** Although a handwritten log was maintained to track fee adjustments made to accounts and fees in Equimetric, management could not be assured that the log entries accurately represented all adjustments. During our audit, we found that one staff member was responsible for posting adjustments in Equimetric. The same staff member then entered the adjustments on the log, which the County Sealer authorized on a periodic basis. During FY 2006-07, nearly 120 adjustments were entered on the log, reducing fees due by over \$10,000. However, these adjustments were not tracked as separate entries in Equimetric and a system report of adjustments could not be generated for management review. Therefore, the accuracy of authorized adjustments on the log was not verified by management and other adjustments to Equimetric records could be made by staff without authorization or detection.

Management Action. RMA management concurred with the finding and stated: "Weights and Measures is working with the Equimetric vendor to determine the work effort involved to make the necessary changes in the software to capture the adjustments and produce a report on a periodic basis for management review and approval. In the current handwritten log, many of the adjustment entries reflect registrants going out of business. These do not constitute a reduction in fees, but rather billings sent for which no fee is due."

- ii. **Documentation and Explanation.** Descriptions of fee adjustments in Equimetric were not always adequate to justify reducing fees due. For example, our sample of seven adjustments on the handwritten log disclosed that descriptions for three adjustments (43%) were not recorded in Equimetric. In addition, descriptions on the log were generally short or vague, such as "computer glitch," which also did not provide a clear explanation to support the rationale for the adjustments. Although staff provided reasonable explanations for the adjustments during our audit, full descriptions needed to be documented to support the accuracy and appropriateness of all adjustments.

Management Action. RMA management concurred with the finding and stated: "Weights and Measures will utilize Equimetric functionality and record in the designated field full explanations for the adjustments. The handwritten log will be modified to expand the space to provide room for full description and explanation of adjustments."

- B. **Segregation of Duties.** Duties within Weights and Measures were not properly segregated to maintain proper control and accountability. During our audit, we noted that one staff member was responsible for billing, receiving payment, and making adjustments to Equimetric. These duties were performed without adequate compensating controls, such as automated tracking of adjustments within Equimetric, to guard against error or fraud.

Management Action. RMA management concurred with the finding and stated: "Weights and Measures is a small division (one manager, six inspectors and one clerical) and as such segregation of duties is difficult to attain. To provide for increased checks and balances, procedures were implemented where WEM (Weights and Measures) staff is observed by either WEM or BDS (Building and Safety) management and two signatures/initials are recorded on the receipt. As a mitigating effort, the division is working with the Equimetric vendor to capture and provide for automated tracking of adjustments."

- C. **System Accuracy.** Equimetric did not always account for annual and late fees accurately. Our sample of 10 fees from approximately 320 fees due in Equimetric as of August 2007, disclosed that 2 (20%) were not accurate. In one instance, management explained that Equimetric was not able to apply a new fee rate and therefore misstated the fee due as \$270 rather than the correct amount of \$250. In the second instance, the prior year's unpaid annual and late fees were overwritten by new fees of \$186. Equimetric also incorrectly indicated that the prior year's outstanding fees were paid. Although management identified the errors during the course of the audit, attention was needed to ensure the reliability and accuracy of account updates within Equimetric.

Management Action. RMA management concurred with the finding and stated: "When a registrant was delinquent in paying fees and an increase in those fees had taken place, Equimetric errantly applied the new higher fee to that outstanding registration. The Equimetric system has been modified and corrections were made to the software to eliminate these errors."

3. **Environmental Health – Limiting Access to the Safe.** The number of employees with access to Environmental Health's safe appeared to be excessive, increasing the risk of loss or theft. The safe contained collections from transactions throughout the day, which averaged \$695 daily in cash alone during January 2008, and could be accessed by any of the seven office staff. According to management, access by all staff members is necessary to return payments for canceled transactions or to reconcile daily transactions in the absence of the two employees responsible for the reconciliation. However, alternate procedures needed to be established to avoid counter staff receiving payments and reconciling daily transactions. In addition, restricting access to the safe would help pinpoint responsibility and eliminate certain employees from suspicion in the event of a discrepancy during the reconciliation process.

Management Action. RMA management concurred with the finding and stated: "Environmental Health has implemented new procedures to reduce the risk of loss or theft. On a daily basis, two clerical staff members are designated with the exclusive duties of processing deposits from mail and over-the-counter sources. These staff do not accept payments at the public counter. These staff members are also the only ones authorized to open the safe to retrieve deposits accumulated from the previous day. All other staff place deposits into the safe using a top chute, which does not require opening the safe."

4. **Operations – Timeliness of Grant Reimbursements.** Although RMA implemented a grant monitoring spreadsheet to track details of grants, including the amounts and dates billed, grant reimbursements were not always requested in a timely manner. For example, our sample of three grant reimbursements disclosed that one reimbursement request was filed 121 days beyond the 30-day filing limit. Although RMA received the full reimbursement amount, attention was needed to ensure the timeliness of grant reimbursements to avoid penalties or funding issues due to delayed grant receipts.

Management Action. RMA management concurred with the finding and stated: "Grant reimbursements directly prepared by Operations Fiscal are submitted within the time period specified by the grant. In the exception noted above, grant administration was contracted to a consultant who was responsible for preparing the claim and related grant report. However, there was approval for late submittal via informal communication between the consultant and grantor. In the future, Operations Fiscal will provide increased oversight and management of consultant-managed grants."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by September 30, 2009.

We appreciate the cooperation and assistance extended by you and your staff during this audit.