



# Department of Developmental Disabilities

## Accounts Receivable Audit

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**Audit Period: September 2015 through December 2015**

### Results Summary:

<b>Objective</b>	<b>Conclusion*</b>
Accounts Receivable Creation	Improvement Needed
Receipt of Payment	Improvement Needed
Monitoring of Past Due Receivables	Improvement Needed

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

During state fiscal year 2015, the Department of Developmental Disabilities (DODD) transitioned from use of internal accounts receivable software to the State of Ohio's accounts receivable module in the Ohio Administrative Knowledge System (OAKS). DODD utilizes the accounts receivable function with various programs, including quarterly county boards of developmental disabilities roll-ups, monthly developmental center payments, and at random intervals, audit findings and provider certification fees. Payments on receivables are received and processed through Ohio Shared Services online and manually by DODD staff. For the period September 1 through December 31, 2015, DODD created 891 receivable transactions totaling \$139,006,259.

During the audit, OIA identified opportunities for DODD to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DODD staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the controls over DODD's accounts receivable processes. The work was completed January through March 2016.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the accounts receivable creation/billing process.
- Evaluate the design and effectiveness of controls over the payment receipt process.
- Evaluate the design and effectiveness of controls over the payment tracking process.

### **Detailed Observations and Recommendations**

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



## Observation 1 – Inadequate Segregation of Duties

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: creation of receivables; receiving or recording/modifying payments against receivables; and monitoring for past due and certifiable receivables. Procedures should be designed to prevent one employee from being assigned incompatible duties.

During the audit period of September through December 2015, the Accounts Receivable Financial Analyst was solely responsible for the DODD’s accounts receivable process, including: creating receivables from agency documentation, modifying receivables as necessary, accepting payments received at the agency, reconciling payments received by the Ohio Shared Services lockbox, and monitoring receivables to identify past due receivables and receivables requiring certification with the Attorney General’s Office. During the audit period, the Accounts Receivable Financial Analyst separated from the agency and DODD did not have other employees trained to completely perform all accounts receivable functions. Additionally, DODD did not have mitigating controls to monitor the work performed by the Financial Analyst to ensure the work was done completely and accurately and was properly supported.

Absence of segregation of accounts receivable duties increases the risk of processing errors, such as inaccurate or incomplete receivables, incomplete or untimely collections, applying payments to incorrect accounts, past due accounts, or inappropriately written off accounts without detection. Absence of segregation of duties also increases the likelihood for misappropriation of assets.

### Recommendation

Evaluate procedures to ensure incompatible duties are delegated such that no individual has responsibility for at least two of the following: creation and modification of accounts receivable, receipt of payments against receivables, and monitoring of past due and certifiable receivables. If limited resources prevent ideal segregation of duties, consider incorporating a separate individual to receive and process payments and reconcile online payments received and lockbox payments received. Separation of receipt of payments from creating and monitoring can serve as adequate compensating controls. Additionally, proper supervisory review of the process can serve as a mitigating control to ensure errors are detected and assets are not misappropriated. Agency policies and procedures over the accounts receivable process should be updated to reflect the new roles and responsibilities of those involved in the process, once determined by management. The policies and procedures should include not only the roles and responsibilities of those involved in the day-to-day processing of the receivables, but should also include procedures for supervisory reviews and approvals necessary throughout the receivables process.



**Management Response**

The accounts receivable policies, procedures and processes within DODD will be reviewed and revised. The policies will incorporate the appropriate segregation of duties and all other recommended changes provided by OBM. The updates will include the following: segregation of duties of creation and modification of accounts receivable; receipt of payments against receivables and monitoring of past due and certifiable receivables; and the separation of processing payments and reconciliation of online payments received etc. If deemed necessary, the creation of compensating controls will be established if the necessary resources are lacking. When using compensating controls, an elevated monitoring and review process, if feasible, will be established and implemented. Lastly, the procedures will also highlight added supervisory reviews and approvals necessary throughout the receivables process.

Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Accounts Receivable Fiscal Manager	August 2016

**Observation 2 – Monitoring Past Due Accounts**

A well-designed system for monitoring accounts receivable should include a standard method to determine the status of the receivables, the actions to be taken at different stages of the receivable, documentation requirements for actions taken, and any exceptions to the normal actions. The actions taken during reviews should be documented to provide assurance to management that they have occurred.

According to the OAKS accounts receivable aging report, as of December 14, 2015, 35 receivables were past due. Fifteen of those receivables were 31 to 45 days past due, six were 46 to 60 days past due, four were 61 to 90 days past due, and 10 were 91 or more days past due. However, DODD did not send the appropriate past due notifications for 16 of the 35 (46%) past due receivables. The Agency allows exceptions to the normal actions for certain types of accounts, but exceptions are not documented. Performance of these actions is also not documented to allow management the ability to determine if action was taken on the past due account. As of February 22, 2016, DODD had not received payments for six of the 19 past due receivables totaling \$125,464 in which DODD sent proper past due notifications. Also, DODD had not received payments for 11 of the 16 past due receivables totaling \$492,673 in which DODD did not send proper past due notifications.

An inadequate system of tracking past due accounts receivable and notifying customers of past due accounts increases the likelihood that past due accounts are not timely identified and may result in the agency not receiving payments.



Recommendation		
<p>Evaluate procedures to ensure past due accounts are timely identified, proper past due notifications are sent to customers, and documentation of actions taken is maintained. Exceptions to the procedures should be approved by an appropriate level of management and documented to evidence management’s decisions.</p>		
Management Response		
<p>All of DODD’s procedures associated with past due receivable accounts will be reviewed and updated to ensure that past due account holders, appropriate agencies, and individuals involved are notified in a timely manner. The procedures will communicate what actions should occur prior to 30 days, after 30 and 45 days. The directions will also highlight the required back-up documentation that should accompany each and every past due account. Lastly, all of accounts receivable exception explanations will be documented, and kept with the corresponding account and will include the appropriate management approvals.</p>		
Risk*	Remediation Owner	Estimated Completion Date
<b>Moderate</b>	Accounts Receivable Fiscal Manager	August 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



## Appendix A – Classification of Conclusions and Observations

### Classification of Audit Objective Conclusions

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

### Classification of Audit Observations

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee