

STATE OF CONNECTICUT

PERFORMANCE AUDIT ACCOUNTS RECEIVABLE FOLLOW UP

August 21, 2002

AUDITORS OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes and with Generally Accepted Government Auditing Standards, we have conducted a follow-up performance examination of our prior performance audits, “Accounts Receivable,” issued April 21, 1999, and “Department of Social Services – Accounts Receivable,” issued July 28, 1999.

The April 21, 1999 audit report included the following twelve State agencies:

- Office of the Secretary of the State
- Office of the Treasurer
- Department of Public Works
- Department of Banking
- Insurance Department
- Department of Consumer Protection
- Department of Agriculture
- Department of Environmental Protection
- Department of Public Health
- Department of Education
- Connecticut State Library
- Connecticut Commission on the Arts

The July 28, 1999 audit report dealt with accounts receivable issues at the Department of Social Services. For these prior audits we focused on accounts receivable activity at the agency level, including invoicing, collecting and managing receivables, as well as credit issues, and waivers and write-offs. Although not generally considered receivables, we also included a review of fee processing where an agency expended repeated collection efforts on the fees.

Our follow up review consisted of evaluating the actions taken by agencies to address conditions and recommendations that we had presented in the two audit reports noted above. We assessed the progress made by the agencies to implement such actions, as well.

The positive actions taken by the audited agencies as a result of the original audits are detailed below. The conditions noted during our follow-up audit, along with our recommendations, are summarized in the following pages. The findings are discussed in further detail in the “Results of Review” section of this report.

**POSITIVE ACTIONS TAKEN AS A RESULT OF THE
PRIOR ACCOUNTS RECEIVABLE AUDITS
APRIL 21, 1999 – ACCOUNTS RECEIVABLE
JULY 28, 1999 – DEPARTMENT OF SOCIAL SERVICES ACCOUNTS RECEIVABLE**

Many of the agencies that were cited in the prior audits have made commendable progress in addressing deficiencies related to accounts receivable.

- Foremost, in response to the audit, the Office of the Comptroller included a sub-section for accounts receivable in a revision of the State Accounting Manual. This revision provides guidance, in general terms, that should prove beneficial to agencies in managing their accounts receivable. The full text of this revision is presented in Exhibit A of this report.
- The Department of Consumer Protection instituted new procedures, relying on inter-division cooperative effort, to ensure prompt invoicing of civil penalties, eliminating the sometimes months of delay in notifying parties of their obligations.
- The Department of Environmental Protection has installed a new software system for managing its spill cases, with features that help to ensure prompt follow up action. In addition, the Office of the State Treasurer, Second Injury Fund, and the Department of Education installed much needed new accounts receivable software that has significantly improved management of their receivables.
- By developing new procedures when existing collection procedures were no longer viable, the Department of Social Services has made payment arrangements with certain Medicaid providers to recover \$873,906 in overpayments and has recovered approximately \$4,500,000 for overpayments of General Assistance through an offset process. Additional Medicaid recoveries are anticipated through the new process.
- The Office of the State Treasurer collected \$220,555 through resolution of previously disputed penalty waivers.
- The Insurance Department reports improvements resulting in the timely billing of \$8,478,740 in certain fees.
- The Insurance Department and the State Library have taken steps to use existing information more effectively and efficiently to manage their accounts receivable.
- The Department of Social Services and the Department of Correction have implemented a data match process that results in the reduction of client overpayments (i.e., a reduction in the creation of receivables).

Timing of Invoicing

Our original audits had noted that invoicing practices were in need of improvement. Parties with an obligation to certain State agencies were not always notified of such obligations in a timely manner.

The Department of Consumer Protection has not made noticeable improvement regarding prompt invoicing of the Federal Food and Drug Administration for contracted services.

The Office of the Secretary of the State has not made significant progress in resolving this finding, as it pertains to invoicing (demands) for Foreign Investigations accounts/cases.

The Department of Consumer Protection and the Office of the Secretary of the State need to take steps to improve invoicing practices, and notify relevant parties as soon as possible after an obligation is identified. (See Item 1.)

Collection Efforts / Ineffective Collection Systems and Practices

Our original reviews had disclosed that collection efforts were in need of improvement.

The Department of Consumer Protection, Office of the Treasurer, Office of the Secretary of the State, and Department of Social Services, while having made some progress, need to make further improvements. Our current review disclosed that the Office of the Treasurer did not consistently act promptly when more aggressive collection efforts were appropriate. At the Department of Consumer Protection, at least one account was inadvertently omitted from the follow-up process. The Office of the Secretary of the State has taken steps to analyze its outstanding foreign investigation accounts/cases, but a process of systematic follow-up has not been implemented. The system to re-coup overpayments from Medicaid providers at the Department of Social Services does not allow for the partial offset of amounts owed against claims in process.

Agency personnel at the Department of Consumer Protection, Office of the Treasurer, Office of the Secretary of the State, and Department of Social Services, should take consistent steps in attempting to collect outstanding accounts. (See Item 2.)

**Management
of
Receivables,
and
Computer
Systems**

Our previous audits recommended that State agencies should take steps to ensure that information is recorded promptly, accurately, and efficiently; that data is readily accessible; and that summary information can be used for decision-making.

The Office of the Secretary of the State has taken steps to analyze its outstanding foreign investigation accounts/cases, but has not taken steps to modify its record-keeping system, which was inaccurate and cumbersome.

While the Department of Social Services has made considerable progress in addressing deficiencies disclosed in our prior review, further efforts are necessary to enhance year end accounts receivable reports.

The Office of the Secretary of the State and Department of Social Services should take steps to ensure that accounts receivable information is recorded promptly, accurately, and efficiently. Improvements are needed to make data readily accessible and to produce summary information that can be used for decision-making. (See Item 3.)

**Credit Policy
/ Interest on
Past-Due
Accounts**

Our previous audits recommended that State agencies that sell goods or services on credit, or are due rebates from suppliers, should establish a written credit policy that clearly defines the agency's terms, including interest where applicable.

The Department of Public Health provides laboratory services on a credit basis. These transactions are not subject to any type of credit policy.

The standard contract for companies participating in the ConnPACE program through the Department of Social Services does not address interest for delinquent payments.

The Department of Public Health and Department of Social Services should each establish a written credit policy that clearly defines the Agency's terms, including interest where applicable. (See Item 4.)

**Compromises
and Write
Offs**

We noted that most agencies, cited in our original reviews as having unsatisfactory procedures to identify and write off uncollectible accounts, have taken corrective action to address our concerns. We did note, however, that the Department of Public Works has not taken steps to evaluate overdue receivables to determine the appropriateness of writing off such accounts.

The Department of Social Services has been attempting to write off some Medicaid provider overpayments, which had been outstanding for a significant period of time. However, Federal officials have instructed the Department to subject the accounts to standardized minimum collection procedures before attempting to write them off.

The Department of Public Works and Department of Social Services should develop procedures for consistent identification, evaluation and write off of uncollectible accounts. (See Item 5.)

**Fees
Receivable**

In our original audit report, issued April 21, 1999, we recommended that agencies that levy fees for licenses, permits, or certificates should establish procedures for prompt invoicing, consistent follow-up, and monitoring of the status of known outstanding accounts. We noted deficiencies at the Department of Insurance, the Department of Agriculture, and the Department of Environmental Protection.

Our current review disclosed that our concerns were addressed at the Department of Insurance. The Department of Agriculture reports that no changes have been made as it is of the opinion that its procedures for collecting outstanding fees are reasonable, due to cost/benefit considerations. Personnel at the Department of Environmental Protection have taken steps to address this finding, including preliminary formulation of Permit Fee Collection Procedures. However, the licensing bureaus have not adopted the procedures.

Agencies that levy fees for licenses, permits, or certificates should establish procedures for prompt invoicing, consistent follow-up, and monitoring the status of known outstanding accounts. (See Item 8.)

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditors of Public Accounts, in accordance with Section 2-90 of the General Statutes are responsible for examining the performance of State entities to determine their effectiveness in achieving expressed legislative purposes. We conducted our follow-up review of the prior performance audits of accounts receivable as reported in two separate audit reports. These were Accounts Receivable, issued April 21, 1999, and Department of Social Services Accounts Receivable, issued July 28, 1999.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards. As with the original audits, we focused on receivables activity at the agency level, including invoicing, collecting, and managing receivables, as well as credit issues and waivers and write-offs. Although not generally considered receivables, we also included a review of fees processing where an agency expended repeated collection effort on the fees. Our audit was conducted at the following agencies.

- Office of the Secretary of the State
- Office of the Treasurer
- Department of Public Works
- Department of Banking
- Insurance Department
- Department of Consumer Protection
- Department of Agriculture
- Department of Environmental Protection
- Department of Public Health
- Department of Education
- Connecticut State Library and the Connecticut Commission on the Arts
- Department of Social Services

The principal objective of this audit was to follow-up on the prior performance audit findings and recommendations to determine the current status of agency responses. The audit was limited to evaluation of the progress made in implementing actions necessary to address and resolve our prior recommendations.

We relied on computer-processed data to a limited extent for this report. Where necessary, we assessed the reliability of the data through direct testing of the supporting documentation. Some of the computer-processed data was reviewed to verify changes in managing accounts receivable. In these instances, we observed the process or reviewed the resulting reports. This information, in conjunction with the information derived from the original audits, was adequate to assess the reliability of computer-processed data.

BACKGROUND

Accounts receivable in the State of Connecticut may arise from a variety of activities.

- Some agencies sell services or information to their clients.
- In some instances, an agency's obligors have been found to owe for failure to comply with statutes and/or regulations governing the entity's business conduct in the State.
- Audits of an agency's clients may reveal previously undetected or unreported sums due the State.
- Some agencies manage leases or rental agreements.
- An agency may identify a legally liable party for prior payments the agency has made to another party.
- Agencies that grant funding to other entities are obligated to ensure that the funding is expended for specified purposes; any unexpended or inappropriately expended funds must be returned to the State.
- Agencies that grant public assistance sometimes discover that clients have been overpaid, and must try to recover the amount of the overpayment.

The recommendations in the April 21, 1999, report were presented in two sections. The first section was directed to the agencies that manage and collect their receivables through varied procedures and practices. The second section of the recommendations was directed to the State Comptroller, as the fiscal guardian of the State, to provide guidance to the State agencies in managing their accounts receivable. The recommendations contained in the July 28, 1999, audit report were directed solely to the Department of Social Services.

In response to the audit, the Office of the Comptroller included a sub-section for accounts receivable in a revision of the State Accounting Manual. The revision, dated April 2000, under the heading "Management Of Receivables - Recommended Practice," addresses accounting for receivables, prompt invoicing, minimum collection efforts, collection records, and write offs. This revision provides guidance, in general terms, which addresses seven of the eight recommendations in the April 21, 1999, audit report.

Refer to Exhibit A to view the full text of this revision to the State Accounting Manual.

RESULTS OF REVIEW

Our review included interviews with management at each agency concerning the current status of agency responses to our prior recommendations and the measures taken to address the findings. Additionally, in cases where an agency had implemented new policies, procedures or systems, we evaluated these efforts to determine if such changes resolved the findings as anticipated.

As we have indicated above, the Office of the Comptroller included a sub-section for accounts receivable in a revision to the State Accounting Manual in response to this audit. With this revision, State agencies now have an additional resource to aid them in their management of accounts receivable. Exhibit A contains the full text of the revision.

Item No. 1. Timing of Invoicing

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

State agencies should take steps to improve invoicing practices, notifying relevant parties as soon as possible after an obligation is identified. The State Comptroller should establish standards for agencies to follow to ensure consistently prompt invoicing schedules for accounts receivable.

(The agencies included in this finding were the Office of the Secretary of the State, Office of the Treasurer, and the Department of Consumer Protection.)

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

The Department of Social Services should invoice, or otherwise initiate the collection process, promptly.

Results of Current Review:

As noted in both of the original accounts receivable audit reports, one element of a good accounts receivable system is prompt invoicing on a consistent basis. Delayed invoicing results in delayed collection of funds due the State. Our review of the State agencies that were included in this finding disclosed that the agencies had varying degrees of success in implementing the recommendation.

The State Comptroller has addressed this recommendation through the aforementioned revision to the State Accounting Manual.

We noted significant improvement at the Office of the Treasurer regarding prompt invoicing of parties who may be legally liable for expenditures made from the Second Injury Fund. A review of selected accounts disclosed no instances of delayed invoicing.

The Department of Social Services also made creditable progress in resolving this finding. We cited three areas of concern in the original audit report related to billing for retroactive boarding home adjustments, client overpayment recoveries, and overpayment recoveries from long-term care facilities. There was significant improvement in timely billing of boarding home adjustments. In addition, the Agency has taken steps to improve the recovery time for client overpayments. This was accomplished by devoting resources to reduce the length of time an overpayment investigation is pending. The Agency reports a significant decrease in pending investigations between the 1997-1998 fiscal year and the 2000-2001 fiscal year. Further, the Department has contracted with an independent source to reduce the backlog and pursue ongoing long-term care facility recoveries.

The Department of Consumer Protection made inconsistent progress in addressing this finding. We found that the Agency had not made noticeable improvements regarding prompt invoicing of the Federal Food and Drug Administration for contracted services. This is due to deficiencies in the timely transfer of service information from the originating division to the fiscal office. The total of the delayed billings for the first three calendar quarters of 2001 was \$21,254. However, there is marked improvement in the timing of civil penalty invoicing. This is due to improved procedures, including the transfer of invoicing responsibilities to the business office, accounts receivable function. When the relevant board assesses a penalty and issues a final decision and order, that information is transmitted to the business office for invoicing, along with essential documentation. We found these transmittals, as well as invoicing, to be timely.

Personnel in the Office of the Secretary of the State report that they have not made significant progress in resolving this finding. Foreign Investigation cases often present a collection problem, as the first difficult step is determining if a foreign corporation has, in fact, conducted business in the State without the required certificate of authority. Furthermore, the Office of the Secretary of the State must comply with statutory time limits for some of its functions, but there are no such constraints for Foreign Investigations. Therefore, other activities often take priority over Foreign Investigation cases/accounts. If an entity is found to have conducted business in the State without the required certificate of authority, that entity may be liable for the interest and penalties associated with such inappropriate conduct of business, as well as any required fees and taxes.

Conclusion:

This recommendation has been partially implemented among the agencies originally cited. We repeat this finding for the Department of Consumer Protection and the Office of the Secretary of the State. (See Recommendation 1.)

Item No. 2 Collection Efforts / Ineffective Collection Systems and Practices

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

Agency personnel should take consistent steps in trying to collect outstanding accounts. The State Comptroller should aid in establishing procedures for developing a cost-effective and consistent collection system that meets the needs of the State agencies.

(We cited the Office of the Secretary of the State, the Office of the Treasurer, the Department of Public Works, the Department of Banking, the Insurance Department, the Department of Consumer Protection and the Department of Environmental Protection in this finding.)

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

The Department of Social Services should re-evaluate its recovery options and develop new methods of recovering funds due the State where existing methods and practices are ineffective.

Results of Current Review:

The chief objective of any accounts receivable system is to maximize collections. To achieve this objective, an accounts receivable system should include effective and consistently applied collection procedures. Generally, delayed and sporadic collection procedures result in delayed collection, at best, and at worst, the inability to collect at all. Some of the agencies cited in the original finding have adequately addressed this matter.

The State Comptroller has addressed this recommendation through the aforementioned revision to the State Accounting Manual.

In implementing this recommendation, the Insurance Department has established clearly defined collection procedures for all divisions that have a responsibility for collecting outstanding accounts. Management at the Department of Banking reports that parties responsible for invoicing and collecting have been instructed to follow appropriate procedures for carrying out these responsibilities. The Department of Environmental Protection has installed a new software program for managing its spill cases. The system records expenditures on a case, as well as collections, correspondence, and related matters. Because of certain prompting features of the system, the Agency has exhibited a significant improvement in taking consistent collection efforts on spill cases since the new system was installed.

While some agencies have made satisfactory progress to address our concerns, others have had less consistent results. The Department of Consumer Protection and the Office of the Treasurer, Second Injury Fund, have implemented standardized procedures for pursuing outstanding accounts receivable that include regularly scheduled statements and follow-up letters. In addition, both agencies have a Memorandum of Understanding with The Department of Administrative Services for collection services. However, we found that the

Office of the Treasurer did not consistently act promptly when more aggressive collection efforts were appropriate, and the Department of Consumer Protection had at least one account that was inadvertently omitted from the follow-up process. Both of these deficiencies were the result of weaknesses in the procedures that allowed the omission of the accounts from the collection process without being detected. The Office of the Secretary of the State has taken steps to analyze its outstanding foreign investigation accounts/cases, but a process of systematic follow-up has not been implemented. As a result, the State is not collecting outstanding Foreign Investigations accounts/cases on a timely basis. At the Department of Public Works, procedures for collecting outstanding accounts have been formalized and distributed to parties with responsibility for managing that Agency's accounts receivable. However, one small category of receivables, parking tickets, is still excluded from the more formal collection procedures.

During our original review, we noted four areas requiring correction at the Department of Social Services. The Agency has taken steps to resolve three of these, and is in the process of reviewing the fourth.

When Medicaid providers have been overpaid, a correction is normally executed through an automated process of deducting the amount of the overpayment from subsequent payments to the provider. However, if a provider is no longer billing, or is no longer billing using its original provider number, a different means of collection is necessary. The Department has taken steps to identify providers for which automated recovery is no longer an option, and has recently made its first manual collection attempt on these accounts.

The General Assistance program provides financial and medical aid to indigent individuals and families. At one time, the cities and towns in the State administered the program. It is now administered almost exclusively by the State. Overpayments to towns were recouped through deduction of the overpayment from subsequent payments. However, when the State began administering the program, that method of recovery was not a viable option, and alternate procedures for recovering outstanding balances were not established. During our current review, we noted that the Agency has taken appropriate action to correct that deficiency, and has collected the outstanding overpayments to municipalities that originated through the General Assistance program. The Agency recovered approximately \$4,500,000 from other funding to the municipalities.

There are occasions when an active Medicaid provider is overpaid, and is due subsequent payments that are not sufficient to recoup the entire overpayment. In these instances, the system does not allow recovery at all. According to Department staff, the system accommodated partial recovery at one time, but it was discontinued. The Agency is currently evaluating the rationale for that action. Until such time as these accounts can be subjected to partial-collection processing or alternate collection procedures, the State is losing an opportunity to maximize its collections.

Conclusion:

This recommendation has been partially implemented by some of the agencies originally cited. We repeat this finding for the Department of Consumer Protection, the Office of the

Treasurer, the Office of the Secretary of the State, and the Department of Social Services. (See Recommendation 2.)

Item No. 3 Management of Receivables / Computer Systems

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

State agencies should take steps to ensure that information is recorded promptly, accurately, and efficiently; that data is readily accessible; and that summary information can be used for decision-making. The Office of the State Comptroller should aid the State agencies in establishing appropriate receivables management practices and record keeping where necessary.

(Agencies cited in this finding were the Office of the Secretary of the State, the Office of the Treasurer, the Insurance Department, the Department of Consumer Protection, the Department of Public Health, the Department of Education, and the State Library.)

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

The Agency should develop and apply procedures to achieve consistency in invoicing, collecting and managing its various types of receivables.

The Agency should correct recurring data system weaknesses and errors.

The Agency should improve controls to help ensure that transactions are recorded accurately and promptly, and that accounting records and the resulting management reports are accurate.

The Agency should develop a monitoring report for State-Administered General Assistance receivables similar to that used for other client benefit programs.

Results of Current Review:

Well-planned accounts receivable systems, including automated and manual components, will provide management with timely, accurate information in as efficient a manner as possible. When information is inaccurate or difficult to obtain, an agency may miss collection opportunities.

The State Comptroller has addressed this recommendation through the aforementioned revision to the State Accounting Manual.

Agencies have exhibited significant improvement in this area. Several agencies have improved management and recording of receivables through installation of new software and/or hardware. Agencies that have resolved this finding in this manner include the Office of the Treasurer and the Department of Education. In addition, the Department of Education now manages all categories of receivables using the new system. The State Library also installed new software for managing its receivables. The current accounts receivable data,

which is essentially the same information that existed prior to software changes, can now be organized in a variety of ways to make it more useful. The Department of Consumer Protection made changes to its existing accounts receivable system to improve security.

In some instances, agencies improved accounts receivable management by using existing information more appropriately and more consistently. The Insurance Department now consistently prepares accounts receivable aging reports and distributes them to responsible managers for review and action. The Department of Public Health has taken steps to ensure that customers are allowed credit only for authorized categories of transactions, thus limiting creation of receivables, and consequently, ensuring that all receivables are subject to appropriate supervisory review.

The Office of the Secretary of the State has taken steps to analyze its outstanding foreign investigation accounts/cases, but has not yet modified its record-keeping system. Consequently, Foreign Investigations records are not maintained as efficiently as they might be.

Our review of the four issues presented in our original Department of Social Services report disclosed the following:

Inconsistency in invoicing, collecting and managing receivables:

The Department of Social Services has made progress in resolving this finding. Management of the Medicaid audit receivables has been assigned to the central accounts receivable unit of the Agency. As a result, the accounts are now subject to standardized collection procedures. The Agency has also taken steps to standardize collection of past due drug rebate receivables, and has contracted with EDS (Electronic Data Services) to collect these accounts. Therefore, this issue is resolved.

Recurring data system weaknesses and errors:

The Department of Social Services has had varied progress in addressing this finding. It was noted in our original review that the system for recording certain medical assistance overpayments did not maintain detail beyond 28 transaction entries. This left gaps in the information reported via that system. The Agency resolved this portion of the finding, in cooperation with the system contractor, by increasing the number of transactions that the system will record.

Our prior review disclosed instances where overpayments were not identified promptly. Recovery of overpayments of direct benefits, such as Temporary Assistance to Needy Families or Food Stamps, was not initiated on a timely basis. The Agency responded to this finding by correcting the data processing function through which the deficiency originated.

We had also noted that data on boarding home accounts receivable was recorded in two separate systems, and was sometimes inconsistent, contributing to inefficient management of these receivables. The Agency is in the process of installing a new system to correct this deficiency. However, because the new system was not in effect at the time of our review, we were unable to determine if it will resolve the deficiency.

Transactions were not recorded accurately and promptly; accounting records and the resulting management reports are not always accurate:

Our original audit of the Department of Social Services disclosed that information from one of the Benefits Accounting Unit reports was used in reporting year-end accounts receivable. This report contains accounts receivable information on medical services provider accounts, as well as other information. The report had to be visually scanned for the purpose of extracting the information that was needed for the year-end accounts receivable report. Understandably, this process is affected by human error, and sometimes resulted in duplications and omissions. The Agency is now able to download the detail information from the report. It was hoped that through computer comparisons and analysis, the Department could eliminate errors. However, Agency personnel report that this review process has not been entirely successful, and it is still necessary to manually review the report until the problems with the new system are resolved. This weakness contributes to inefficient management of these receivables

It had also been noted that some Medicaid drug rebate accounts receivable balances were erroneous for a considerable length of time. Our current review disclosed that a record of errors and/or disputes is now recorded in a Drug Rebate Dispute Summary report. This process began for rebates calculated since October 1999. The Agency has also taken steps to resolve outstanding rebate disputes originating before October 1999 in a separate process.

Ineffective monitoring of State-Administered General Assistance receivables:

The Agency developed a monitoring report for State-Administered General Assistance receivables similar to that used for other client benefit programs. This issue has been satisfactorily addressed.

Conclusion:

This recommendation has been partially implemented. We repeat this recommendation for the Office of the Secretary of the State and the Department of Social Services. (See Recommendation 3.)

Item No. 4 Credit Policy / Interest on Past-Due Accounts

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

State agencies that sell goods or services on credit should establish a written credit policy that clearly defines the agency's terms, including interest where applicable. The State Comptroller should develop standards to help the agencies implement a reasonable, enforceable credit policy.

(This finding was directed to the Department of Public Health.)

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

The Department should clarify and enforce its interest policies.

Results of Current Review:

An important factor in a successful collection system is a clearly defined, written credit policy that is consistently applied. The absence of credit terms may result in inconsistent collection practices, and therefore, missed collection opportunities, in addition to leaving both the creditor and the obligor uncertain as to their rights and obligations.

The State Comptroller has addressed this recommendation, in a very general way, through the aforementioned revision to the State Accounting Manual.

The Department of Public Health provides laboratory services on a credit basis. These transactions are not subject to any type of credit policy. The Agency has not implemented the recommendation. The principal reason given for non-implementation is that an organization may do business with more than one State agency. The Agency asserts that it is unreasonable for an agency to implement its own credit policy, as a Statewide credit policy is needed, rather than many individual credit policies.

The Department of Social Services was also cited for not having a clearly written credit policy in its ConnPACE contracts and for not enforcing its credit policies in its Medicaid pharmaceutical contracts. A review of the most recent application for participation in the ConnPACE Rebate Program states that pharmaceutical companies (known as labelers) that wish to participate in the program are required to submit the rebate payment within 30 days of the receipt of drug utilization data from the Department. However, there is no reference to paying interest in the event of delinquent payments.

In addition, the Department was cited in the 2001 Statewide Single Audit Report, issued March 19, 2002, for insufficient controls over the Medicaid drug rebate program. More specifically, the fiscal intermediary, with which the Department has contracted to administer the Medicaid drug rebate program, “did not have procedures in place to identify labelers who failed to submit interest with their late payments or, for those who did submit payments, procedures to determine whether the payment amount was correctly calculated.”

Conclusion:

Although, as the Department of Public Health contends, a statewide credit policy is warranted, we maintain that if an agency allows customers to purchase goods or services on credit, that agency is responsible to establish, communicate, and enforce reasonable credit terms, in the absence of a statewide policy.

The Department of Social Services has taken steps to improve controls by capturing necessary information to calculate interest due from pharmaceutical companies, when rebate payments are received late. However, the standard ConnPACE contract does not include an interest policy.

We repeat this finding for the Department of Public Health and the Department of Social Services. (See Recommendation 4.)

Item No. 5 Compromises and Write Offs

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

State agencies should develop procedures for consistent identification and write off of uncollectible accounts. The Comptroller should establish guidelines to aid State agencies in developing their write off procedures.

(We addressed this finding to the Office of the Treasurer, the Department of Public Works, the Department of Public Health, and the Connecticut State Library.)

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

The Department should write off those accounts that are known to be uncollectible or, in keeping with its own procedures, those accounts that are not cost effective to pursue for collection.

Results of Current Review:

Although a good accounts receivable system should minimize losses due to bad debts, some accounts will clearly not be collectible. A well-planned system will include procedures to identify and write off uncollectible accounts. When uncollectible accounts continue to be included in the accounts receivable records, this may distort the true condition of an agency's accounts receivable, and may inhibit efficient management of accounts receivable.

The State Comptroller has addressed this recommendation through the aforementioned revision to the State Accounting Manual.

With the revision of Section 3-7 of the Connecticut General Statutes, many agencies have made progress in writing off old and uncollectible accounts. The revision increased the amount that may be written off with the approval of the agency head from \$200 to, in most cases, \$1,000, and transferred authority for canceling larger claims from the Attorney General and the Governor to the Secretary of the Office of Policy and Management. We noted that the Office of the Treasurer, the Department of Public Health and the State Library, have made such progress. The Department of Public Works, however, has not taken that first essential step of evaluating overdue receivables to determine the appropriateness of writing off the accounts.

The Department of Social Services was cited for failing to write off old and uncollectible accounts in three areas, and has made some progress in resolving this finding. The Agency took positive steps in writing off old and uncollectible Medicaid provider overpayments, some of which had been outstanding for ten to twenty years. However, the Federal Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration [HCFA]) has instructed the Agency to subject the accounts to standardized minimum collection procedures before attempting to write them off.

Many client overpayment accounts that could not be collected have been written off since 1998. The total of these accounts is \$12,814,939. The write offs were effected through modifications of the Agency's Eligibility Management System and through cancellations originating at the Department of Administrative Services, for those accounts managed by that Department for DSS.

DSS has remedied the problem of uncollected drug rebate accounts under \$50, which were billed but never pursued for collection. These accounts, which were never written off, are now excluded from the billing process. Therefore, the Agency does not have to determine how much collection effort should be attempted, or when to write off the accounts. It would appear to be prudent to continue to invoice for amounts due, but to write off the accounts that are not collected.

Conclusion:

This recommendation has been partially implemented. We repeat this recommendation for the Department of Public Works and the Department of Social Services. (See Recommendation 5.)

Item No. 6 Waivers

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

State agencies that are authorized to waive penalties, interest, or other fees or costs should adopt procedures to ensure consistent treatment and prompt action for all requests for waivers. The State Comptroller should establish standards to aid in ensuring consistent treatment of requests for waivers, where not already addressed by statute or regulation.

(The Office of the Treasurer was the only agency cited in this finding.)

Results of Current Review:

When an agency finds it necessary or desirable to grant a waiver of fees, penalties and/or interest, in compliance with State statutes, it is appropriate to act promptly and consistently. A delayed decision may result in delayed collection of funds due the State.

The Office of the Treasurer is authorized to waive interest and penalties for amounts due the State arising out of activities in the Unclaimed Property Division. Two accounts that had been unresolved for several years have been collected, and, at the time of this review, there were no unresolved requests for waivers.

Conclusion:

The State Comptroller did not address this finding in the revision to the State Accounting Manual. However, as the Office of the Treasurer, the only Agency cited in this finding, took

appropriate steps to implement the recommendation, we do not repeat the recommendation for either the Office of the State Comptroller or the Office of the Treasurer.

Item No 7. Grants Receivable

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

Those agencies that administer grants and must monitor the return of grant funds to the State should have an accounts receivable system capable of accommodating grant returns receivable. The State Comptroller should establish guidelines for agencies to follow in collecting grant returns due the State.

(We cited three agencies in our previous audit, the Department of Education, the State Library, and the Connecticut Commission on the Arts.)

Results of Current Review:

Entities that receive grants from the State are obligated to expend the grant funds for the intended purpose of the grant. If, after the grant period ends, it is determined that not all grant funds were expended or that those funds were expended for unauthorized purposes, the grantee is required to return the unexpended or inappropriately expended funds to the State. It is necessary for those State agencies that administer grant funding to have an adequate means of tracking grant returns receivable. Without adequate procedures and processes for monitoring potential grant returns, State agencies will miss or delay collection opportunities.

The agencies cited in our original audit report have resolved this finding through improved accounts receivable management and control procedures. The Department of Education has implemented systematic procedures to manage all its accounts receivable, including those arising from grants made to other entities. As stated in Item #3, above, the Agency has installed new software for managing its receivables, including receivables related to grant returns. Our observations disclosed that when a potential grant return receivable has been created, the Agency takes adequate steps to research the matter, and to collect amounts due when appropriate. Agency personnel use a variety of useful reports generated by the system to monitor grant returns receivable, as well as all other Agency receivables.

The Connecticut Commission on the Arts has reiterated its policy for determining grant amounts due, to its grantees and Commission staff responsible for administering/monitoring grants. Personnel at the State Library have addressed our concerns by providing additional control in reviewing grant approvals.

Conclusion:

The State Comptroller did not address this finding specifically in the revision to the State Accounting Manual, but grant returns receivable may reasonably be included in the category of "Miscellaneous/Other Receivables." For this reason, and because this finding has been

adequately resolved by the three agencies originally cited, through improved accounts receivable management and controls, we do not repeat this recommendation for the Office of the State Comptroller, nor for the Department of Education, the State Library, or the Connecticut Commission on the Arts.

Item No. 8 Fees Receivable

Prior Audit Recommendation:

April 21, 1999 Audit Report, Accounts Receivable:

Agencies that levy fees for licenses, permits, or certificates should establish procedures for prompt invoicing, consistent follow-up when it is known that the invoiced amount is owed, and monitoring the status of known outstanding accounts using system data that is accurate and relevant. The State Comptroller should address the reporting requirements for outstanding fees receivable where collection is delayed beyond the normal time of receipt.

(We cited the Insurance Department, the Department of Agriculture, and the Department of Environmental Protection in this finding.)

Results of Current Review:

As we stated in our original audit report, it is generally not appropriate to account for fees related to licenses, permits or certificates as receivables, for financial statement purposes. However, certain general accounts receivable procedures may be applied to fees, especially when fee collection is delayed beyond the normal time of receipt. The practices of prompt invoicing, consistent follow-up, and appropriate record keeping apply as much to fees as to any accounts receivable program. Without this approach, an agency will not be able to maximize revenue derived from fees, and the statutes and regulations requiring the payment of fees will not be equally enforced for all constituent entities.

The State Comptroller has addressed this recommendation through the aforementioned revision to the State Accounting Manual. State agencies are instructed, reasonably, to not record a receivable when billings are issued for license or permit fees. However, we maintain that the practices of prompt invoicing, consistent follow-up, and appropriate record keeping do apply to managing billings for fees. Certain of the instructions included in the "Agency Procedures" section of the revision to the State Accounting Manual may sometimes apply to managing fees. Therefore, we do not repeat this finding for the State Comptroller.

The Insurance Department had reported one instance of delayed invoicing for one of its categories of fees in 1996. The Agency has resolved this matter by taking steps to ensure the prompt invoicing and follow-up of its fees. Our review of the Department's management reports of outstanding invoices showed that all categories of accounts are reasonably current. Furthermore, a review of the documentation for the Agency's latest fees to be billed, totaling \$8,478,740, indicates that the billing was timely.

The Department of Agriculture reports that no changes have been made since the audit report was issued, but that its procedures for collecting outstanding fees are reasonable. The reason

given for this assertion is the cost/benefit consideration of collection activities. While we agree that the potential benefit of an activity must be considered in relation to its cost, we maintain that consistent collection efforts are necessary. Procedures outlining specific actions to be taken for outstanding fees, within Agency-established monetary guidelines, would address this recommendation.

Personnel at the Department of Environmental Protection have taken steps to address this finding, including preliminary development of Permit Fee Collection Procedures. However, the licensing bureaus have not adopted the procedures.

Conclusion:

This recommendation has been partially implemented by the agencies originally cited. We repeat this finding for the Department of Agriculture and the Department of Environmental Protection. (See Recommendation 6.)

Item No. 9 Inter-agency Communication

Prior Audit Recommendation:

July 28, 1999 Audit Report, Department of Social Services Accounts Receivable:

Other State agencies should be required to notify the Department of Social Services (DSS) promptly when those other agencies take action that impacts client eligibility.

Results of Current Review:

As it is generally recognized that collection efforts should be initiated immediately when a financial obligation of one party to another is created, a reliable, consistent means of sharing information about transactions is needed when the actions of one State agency affect the accounts or caseload of another State agency. Delayed communication in such cases means delayed invoicing, or other means of notification of an obligation, and the possibility that funds due the State will not be collected at all.

We noted in our prior audit report that the Department of Correction, the Department of Children and Families, and the Department of Mental Retardation, had clients who were also DSS clients. The actions of these agencies on their clients' cases sometimes had an effect on those individuals' DSS benefit eligibility. However, the relevant information was not always communicated to DSS in a timely manner.

Our current review disclosed that DSS has established procedures for a monthly data match with the Department of Correction. Changes to a recipient's eligibility status can be identified on a timely basis through this monthly match.

The communication deficiencies between DSS and other State agencies have not been so easy to remedy, as any resolution would require the cooperative effort of the other agencies. Department of Social Services personnel report that they have reminded other agencies of the

need to communicate information that impacts on client eligibility. This matter will be considered for inclusion in our 2002 Annual Report to the Connecticut General Assembly.

Conclusion:

As this recommendation has been resolved within DSS' capabilities and area of authority, it is not repeated.

Recommendations

- 1. The Department of Consumer Protection and the Office of the Secretary of the State need to take steps to improve invoicing practices, and notify relevant parties as soon as possible after an obligation is identified.**

Comments:

The Department of Consumer Protection has not made noticeable improvement regarding prompt invoicing of the Federal Food and Drug Administration for contracted services. The Office of the Secretary of the State continues to experience difficulties collecting on Foreign Investigation cases. This is due to the fact that it must first be determined if a foreign corporation has, in fact, conducted business in the State without a required certificate of authority.

Agency Responses:

Department of Consumer Protection:

“The Department agrees with the Auditors’ findings that ‘...the Agency had not made noticeable improvement regarding prompt invoicing of the Federal Food and Drug Administration for contracted services.’ The delays inherent to the FDA billings have since been resolved as a result of a meeting between the Business Office and the Division of Food & Standards. Food sanitation inspection reports, including negative reports, will be forwarded to the Business Office as soon as they are completed, but no later than twenty days after the inspections have been performed, for invoicing.”

Secretary of the State:

“[The] Commercial Recording Division Manager has committed to assigning a full time staff member to the Foreign Investigation Area on July 1, 2002 to specifically address the issues of [this finding]. This person would also facilitate a rewrite of the current application with our IT department.”

- 2. Agency personnel at the Department of Consumer Protection, Office of the Treasurer, Office of the Secretary of the State, and the Department of Social Services, should take consistent steps in attempting to collect outstanding accounts.**

Comments:

Our current review disclosed that the Office of the Treasurer did not consistently act promptly when more aggressive collection efforts were appropriate. At the Department of Consumer Protection, at least one account was inadvertently omitted from the follow-up process. The Office of the Secretary of the State has taken steps to analyze its outstanding foreign investigation accounts/cases, but a

process of systematic follow-up has not been implemented. The Department of Social Services does not re-coup amounts due from Medicaid providers unless the entire amount can be recovered from a subsequent claim.

Agency Responses:

Secretary of the State:

Refer to response to Item #1.

Office of the Treasurer:

“The Fund agrees with the auditor’s comments. While follow up and collection efforts were appropriate on outstanding accounts of insured employers, the Fund did not apply the same prompt follow up or aggressive collection efforts for outstanding self-insured employer accounts. The Fund has since adopted appropriate follow up and collection procedures for outstanding self-insured employer accounts to more promptly seek payment of assessments due the State.”

Department of Social Services:

“The Department’s Medicaid claims processing contractor, EDS, is also the Medicaid contractor in other states. EDS is researching how their system offsets claims in other states and based on the results of their inquiry, the Department will work with EDS to implement the necessary steps to correct this deficiency.

In the interim, items which are claim specific and which have been on our files for three months without activity will be sent to the Accounts Receivable unit for collection. This will allow for recovery outside of the MMIS system which will eliminate the ‘partial claim’ issue.”

Department of Consumer Protection:

“The Department disagrees that the Auditors’ findings in this respect merit a repeat recommendation. It entered into an agreement with the Department of Administrative Services/Bureau of Collection Services last year that authorized their collection of delinquent accounts on our behalf. Furthermore, the Department of Consumer Protection has established a specific procedure in this respect. An initial invoice is sent to each respondent and subsequently followed-up with statements and letters for the next three months. If an account holder is still unresponsive, the account is then considered ‘delinquent’ and turned over to the DAS/Bureau of Collection Services. If DAS determines that an account is uncollectible, it informs the Department of Consumer Protection accordingly.”

Auditors’ Concluding Comments:

We note that the Department of Consumer Protection has made significant improvement in its procedures for following up on delinquent accounts. However, we repeat the recommendation to address the need to apply the procedures consistently, and to ensure that controls are adequate to minimize the possibility that any accounts will be omitted from the process.

- 3. The Office of the Secretary of the State and Department of Social Services should take steps to ensure that accounts receivable information is recorded promptly, accurately, and efficiently. Improvements are needed to make data readily accessible and to produce summary information that can be used for decision-making.**

Comments:

Personnel at the Office of the Secretary of the State reported the Agency had not resolved the findings included in our original report. We had found that accounts that should have been closed were maintained in an “active” manual file system, and that the automated accounts receivable records did not provide for a “net balance due” amount by account.

The Department of Social Services needs to make further enhancements to its benefits accounting records analysis process to achieve accuracy in its year end accounts receivable reports.

Agency Responses:

Secretary of the State:

Refer to response to Item #1.

Department of Social Services:

“While the Department concurs that the computerized approach to end of year receivables can be enhanced, we were able to correctly report on GAAP receivables this past reporting period and we were not cited for any audit findings relative to our GAAP filing. While we understand the benefits of a ‘more efficient, fully automated’ method for reviewing this area, we would note that this is a process improvement, rather than a flaw in our reporting. We will, however, have this computerized approach fully functional by the coming GAAP filing.”

Auditors Concluding Comments:

It is commendable that the Agency’s year-end reporting apparently did not suffer from the weaknesses in system records. However, we must reiterate the importance of reliable records and processes, which is the best way to maintain accuracy.

- 4. The Department of Public Health and Department of Social Services should establish written credit policies that clearly define the agency’s terms, including interest where applicable.**

Comments:

The Department of Public Health provides laboratory services on a credit basis. These transactions are not subject to any type of credit policy.

The standard contract for companies participating in the ConnPACE program through the Department of Social Services does not address interest for delinquent payments.

Agency Responses:

Department of Social Services:

“The Department is in the process of incorporating language clarifying that pharmaceutical manufacturers are required to pay interest on rebate payments not received within 30 days of receipt of utilization data from the Department. Although rebate interest is charged to and paid by pharmaceutical manufacturers, clarifying language will be added to the contract entered into between the Department and manufacturers once contract modifications are approved by the Department’s Legal Affairs Division.”

Department of Public Health:

“The Department of Public Health’s Laboratory is a clinical and environmental laboratory established by Section 19a-26 (formerly Sec. 19-7) of the Conn. General Statutes. The statute states that the Commissioner of Public Health must establish fees for laboratory work performed. The Laboratory’s clients/accounts are post-billed on a monthly basis for testing performed. The procedure for following up on clients/accounts that have balances over 60 days old is that a series of three dunning letters are mailed to the delinquent client/account. These letters have progressively stronger language, with the third letter explaining that if payment is not received within 15 days of receipt of the letter, the account will be referred to the Department of Administrative Services, Bureau of Collections Services for collection.

The Laboratory reserves the following rights:

- 1) To withhold the release of any laboratory test result until payment for the test has been received.
- 2) To withhold the release of any test result until a delinquent balance has been settled.
- 3) To require prior payment before a test is performed.”

Auditors’ Concluding Comments:

The Department of Public Health’s reservation of certain rights against delinquent payers would be part of a good credit policy, if clearly stated and consistently applied. An agency’s credit policies should be communicated to all parties conducting business on a credit basis with the State agency, so that these entities

have a clear understanding of their obligations as well as the State agency's recourse in the event of non-payment.

- 5. The Department of Public Works and Department of Social Services should develop procedures for consistent identification, evaluation and write off of uncollectible accounts.**

Comments:

The Department of Public Works has not taken steps to evaluate overdue receivables. Evaluations would assist in determining the appropriateness of writing off such accounts.

The Department of Social Services has been attempting to write off some Medicaid provider overpayments that had been outstanding for periods of up to twenty years. However, Federal officials have instructed the Department to subject the accounts to standardized minimum collection procedures before attempting to write them off.

Agency Responses:

Department of Public Works:

“The department acknowledges the finding. The outstanding receivables will be reviewed during the FY 2002 end-of-year data collection and reporting process. The department will evaluate each of the outstanding items to determine the validity of the debt and to make decisions on write-off or follow-up.”

Department of Social Services:

“The Department has undertaken a significant effort to attempt to write off outstanding Medicaid receivables where appropriate. We have recently sent out over 1,000 remittance advices and corresponding collection letters. Based upon the results of this effort, we will be seeking the ability to write off any minor balances that appear to be uncollectible. Initially, this would include all claims under \$1,000. We will then review all other outstanding receivables in terms of age and size of the claim in order to evaluate whether additional collection efforts are useful. If so, we will continue to pursue collections, otherwise we expect to seek the approval of the Office of Policy and Management for the write off of the true non-collectible items.

We will be performing quarterly procedures to clear all claim-specific receivables after 90 days to prevent any further backlog of such receivables. This prompt action will help eliminate the audit condition cited.”

- 6. Agencies that levy fees for licenses, permits, or certificates should establish procedures for prompt invoicing, consistent follow-up, and monitoring the status of known outstanding accounts.**

Comments:

The Department of Agriculture reports that no changes have been made as it is of the opinion that its procedures for collecting outstanding fees are reasonable, due to cost/benefit considerations.

The Department of Environmental Protection has taken steps to address this finding, including preliminary formulation of Permit Fee Collection Procedures. However, the licensing bureaus have not adopted the procedures.

Agency Response:

Department of Environmental Protection:

“The Department of Environmental Protection (DEP) agrees with the follow up findings DEP’s Bureau of Financial and Support Services has taken steps to address the original finding by developing and recommending revised Permit Fee Collection Procedures; however, these new procedures require adoption by the agency’s program bureaus that manage environmental permit programs. DEP’s Financial and Support Service Bureau will continue to work with the program bureaus to implement a revised set of Fee Collection Procedures.”

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the officials and staff of the various agencies during the course of this review.

Laura Rogers
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

EXHIBIT A

(Excerpt from the State Accounting Manual, Section 12)

4.0 MANAGEMENT OF RECEIVABLES - RECOMMENDED PRACTICE

4.1 Principle

Accounts receivable records should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding. This practice establishes policies and procedures for all state agencies in the management and collection of receivables. For clarity, these policies and procedures have been separated into three sections: (I) Accounting for Receivables – defines and classifies receivables; (II) Agency Procedures – establishes procedures for collecting delinquent accounts, obtaining approval to write off accounts, and reporting receivable balances and transactions to the State Comptroller's Office, Accounting Services Division; and (III) Terminology – defines important terms used in these procedures.

4.2 Authoritative Reference

The policies and procedures contained herein are in accordance with the following: General Statutes 3-39a, 4a-12, 13a-166; Public Act 98-204; Public Act 99-2; and the State Accounting Manual.

4.3 General Practices

I. Accounting for Receivables

General: In general, the term "receivables" includes all claims held against others for future receipts of monies, goods and services. In accounting, however, this term is used in a more restrictive sense to indicate claims, which have been billed and are expected to be collected in monies. The term "receivables" includes taxes receivable, amounts due from the federal government, from political subdivisions, from other funds, from other agencies, and such other amounts which come due as a result of regular business transactions.

- A. Taxes Receivable: Taxes are not considered as receivables until a determination is made that the tax is actually due, but has not yet been paid. Therefore, under the classification of "Taxes Receivable," the following may be found:
1. Taxes under litigation, pending court decision.
 2. Amounts erroneously underpaid by taxpayers that are expected to be collected.
 3. Amounts reported due from the taxpayer, but not yet paid.

In all of the instances cited above, documentation of the receivables must be available before the transaction can be entered in the agency's books of accounts.

- B. Amounts Due from Other Governmental Units: Amounts due from the federal government are to be set up on the books of the receiving agency as receivables if either of the following conditions is met:
1. The State of Connecticut has incurred expenditures which qualify and are eligible for reimbursement from the federal government.
 2. The State of Connecticut has expended funds to finance a project which, either by law or by contractual agreement, is to be financed on a matching basis by federal and state funds.

Outright grants, since they do not meet these conditions, cannot be properly categorized as receivables.

Amounts due from other political subdivisions to be set up on the books of the receiving agency as receivables may include:

1. The State's share of taxes collected by its political subdivisions.
2. Loans.
3. Charges for services rendered or goods sold.

- C. Loans Receivable: Amounts, which have been loaned to persons or organizations, including notes taken as security for such loans.
- D. Due from Other Funds: Amounts owed to a particular fund by another fund in the same governmental unit for goods sold or services rendered. This includes only short-term obligations on open account and not long-term loans.
- E. Licenses, Fees, Permits and Donations: Revenues and receivables for licenses, fees, permits and donations should be recognized when the underlying event takes place and the State has an enforceable legal claim to the amounts.

Fees for Licenses and Permits – Citizens and others pay fees for licenses and permits for the privilege of engaging in a regulated activity. Often the fee is intended to cover a privilege granted for a particular period of time. Because citizens and others granted the license or permit have no legal right to exercise the privilege granted by a license or permit until the fee is paid, a government's enforceable legal claim arises only when the fee is paid.

Therefore, no receivables or revenues should be recorded when renewal notices for licenses and permits are sent out. The revenues should only be recognized when payment is received.

- F. Miscellaneous/Other Receivables: Receivables arising from transactions other than those outlined in the preceding paragraphs may be classified under the general category of "other receivables." Such receivables may include items such as overpayments by an agency subject to refund, interest and penalties assessed against an individual or a corporation, and any of the receivables, which may arise during an agency's course of operations.

II. Agency Procedures

- A. Minimum Collection Procedures: It is the responsibility of each state agency to immediately notify the person or entity who owes money that money is owed. It is the responsibility of each state agency to collect amounts owed to the State in the most effective and efficient manner. Unless the State Comptroller's Office approves an agency's alternative collection procedure, all state agencies will adhere to the following basic procedures relating to collection of past due accounts. These procedures are considered minimum efforts. Certain state agencies may find it necessary to expand these general procedures to fit their particular circumstances.
1. All accounts which are more than 30 days past due must be subjected to collection procedures.

2. A record must be kept for each action taken to collect an account, the name of the person taking the action, and the date the action was taken. This documentary evidence of collection efforts must be available at the agency to support classifying an account as uncollectible.
 3. At least three documented efforts should be made to collect all delinquent accounts over \$25. Accounts \$25 and under require only one documented attempt.
 4. When an account becomes 60 days past due, further credit should be denied until the account is returned to a current status.
 5. The State's right to offset debts owed the State against state payments due such debtors should be utilized. Please refer to Section 6 of the State Accounting Manual for information regarding the Offset Program.
 6. Deferred payment terms should be extended on a limited basis, only upon determining that the debtor is unable to pay the balance in full. Terms should not extend beyond six months. However, terms can be extended for a few months more where large balances are concerned and payment of such balances within six months would create a hardship. Certain Higher Education funds are governed by federal laws.
 7. Agencies may contact the Financial Services Center Unit of the Department of Administrative Services for assistance in the collection of debts owed to the State.
 8. When other statutes address the agency's collection procedures, those procedures should be followed.
- B. Write-Off Request Procedures: As of July 1, 1998, Public Act 98-204 went into effect. Under this legislation write-offs of uncollectible accounts no longer require approval by the Governor. Also, effective July 1 the threshold for approval by OPM was raised from \$200 to \$1,000. Agencies are permitted to write-off amounts under \$1,000 without OPM approval. An agency must request approval from OPM to write off a receivable over \$1,000 when the following criteria are met:
- a. A valid receivable does exist, i.e., there are no unsettled differences between the agency and the debtor as to the validity of the charges to the account.
Note: Do not submit amounts resulting from billing errors (e.g., charges for services not rendered) or medical insurance adjustments (e.g., non-covered Medicare charges). State agencies may make the appropriate accounting entries to remove these items from their accounts.
 - b. The receivable is past due (having missed a scheduled payment). The length of time past due may vary by the type of the receivable.
- The agency has complied with the "Minimum Collection Procedure" section, without success, and has determined that the receivable is uncollectible.
- As soon as the criteria noted above are met, the agency should prepare the request in two copies; the original to be forwarded to OPM for approval to write off the receivable, and the copy to be retained in the agency. Note: For agencies that routinely request writeoff of uncollectibles, a statement describing their collection process which determined that the item is uncollectible must be filed with OPM before any writeoffs are considered. The request should include the following:
1. The number of accounts to be written off.
 2. The total dollar amount of such accounts.
 3. For each account, list the debtor's name, social security number or federal employer identification number, amount, and a brief statement of the reason or basis for determining the account uncollectible. In lieu of said brief statement, the agency may use a numerical write-off code.

Note: Agencies should make sure that the statement or write-off code clearly identifies debts that have been discharged in bankruptcy.

4. A statement by the responsible individual that in his or her opinion the accounts are uncollectible and that all reasonable efforts have been pursued and the request is submitted in accordance with policy and procedure.
5. The signature of the agency head which certifies his or her approval of the request. A request signed by an agency head's designee is acceptable, provided OPM has received a designation letter from the agency head.

The agency should retain the receivables on its record pending notification of approval from OPM. Upon receiving such notification, the agency should promptly remove the receivable from its records. All accounts receivable and taxes receivable written off by the state agency as described above are thereby assigned for collection. The state agency must maintain all information relating to the receivables, which were written off. Officers and employees of the state agency may be required to participate in, and provide documentation for, hearings or litigation regarding the collection of the receivables.

- C. Annual Reporting by Agencies – Fiscal year End Instructions: Fiscal year end instructions should be referred to by each agency to report its fiscal year end receivable transactions and balances to the State Comptroller's Office, Accounting Services Division. The due date for the report will be the first Friday in September and should be submitted to the Accounting Services Division.

III. Terminology

ABATEMENT: A complete or partial cancellation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments and service charges.

AGING OF RECEIVABLES: Classifying the account balances of all receivables by the amount not yet due or past due by varying lengths of time.

ALLOWANCE FOR ESTIMATED UNCOLLECTIBLE: A valuation account used to indicate the portion of a receivable which it is estimated will never be collected.

COMPROMISE: The statutory authority granted certain state agencies to negotiate a settlement of a debt between the debtor and the agency.

CURRENT ACCOUNT: An account which is within stated terms and has not yet become past due.

PAST DUE (DELIQUENT) ACCOUNT: An account in which one or more scheduled payments have not been made.

UNCOLLECTIBLE: An account unable to be collected.

WRITE-OFF: Accounting procedures for removing uncollectible charges receivable balance.