

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701-4747
Fax No.: (775) 684-6600



LEGISLATIVE COMMISSION (775) 684-6800
JOHN OCEGUERA, *Assemblyman, Chairman*
Lorne J. Malkiewich, *Director, Secretary*

INTERIM FINANCE COMMITTEE (775) 684-6821
BERNICE MATHEWS, *Senator, Co-Chair*
STEVEN HORSFORD, *Senator, Co-Chair*
Mark Krmpotic, *Fiscal Analyst*
Tracy W. Raxter, *Fiscal Analyst*

LORNE J. MALKIEWICH, *Director*
(775) 684-6800

BRENDA J. ERDOES, *Legislative Counsel* (775) 684-6830
PAUL V. TOWNSEND, *Legislative Auditor* (775) 684-6815
DONALD O. WILLIAMS, *Research Director* (775) 684-6825

Legislative Commission
Legislative Building
Carson City, Nevada

We have completed an audit of the Office of State Controller, Accounts Receivable. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Office's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Office of State Controller; Department of Employment, Training and Rehabilitation; Department of Motor Vehicles; and Department of Taxation for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

February 9, 2010
Carson City, Nevada

STATE OF NEVADA
OFFICE OF STATE CONTROLLER
ACCOUNTS RECEIVABLE

AUDIT REPORT

Table of Contents

	<u>Page</u>
Executive Summary	1
Introduction	7
Background.....	7
Scope and Objectives	10
Findings and Recommendations.....	12
Accounts Receivable Reporting Process Needs Improvement.....	12
Procedures Needed to Ensure Reliable, Accurate, and Complete Reports Submitted by Agencies.....	12
Estimated Collectability of Receivables Not Reasonable	19
Public Access to Reports Needed	20
Enhancements to Debt Collection Process Needed	22
Reconciliations Not Completed Timely	22
Improvements Needed in Record Keeping.....	23
Age of Accounts Receivable Hinders Collection.....	25
Debt Offset Program Could Be Improved	27
Office is Working to Improve Oversight and Collection of Receivables.....	29
Legislative Changes Expand Office’s Role.....	29
Technology Solutions Aimed to Enhance Reporting Accuracy and Collections.....	30
More Training for State Employees Regarding Accounts Receivable	31
Appendices	
A. Audit Methodology.....	32
B. Response From the Office of State Controller	35

EXECUTIVE SUMMARY

OFFICE OF STATE CONTROLLER ACCOUNTS RECEIVABLE

Background

The Nevada State Controller serves as the State's chief fiscal officer responsible for administering the state accounting system, paying claims against the State, publishing the State's financial statements, and managing the State's debt collection program. The goal of the debt collection function is to increase collections of past due amounts and decrease the total outstanding debt owed to the State of Nevada. The debt collection function within the Office of State Controller (Office) is divided into three general programs including debt collection, debt offset, and accounts receivable reporting.

The Legislative Counsel Bureau Audit Division issued an audit report in January 1998 on the management and collection of the State's receivables. The audit found state agencies lacked critical information and mechanisms necessary to effectively collect accounts receivable and that there was a need for centralized debt collection efforts. Subsequent to the audit, the Legislature created a legal framework for improving the collection of the State's receivables under Nevada Revised Statute Chapter 353C – Collection of Debts Owed to State Agency.

Purpose

The purpose of this audit was to determine if the Office's accounts receivable report is reliable and whether the debt collection procedures help ensure collection of state receivables. This audit included a review of the Office's accounts receivable report at June 30, 2008, with certain activities performed on the September and December 2008 reports. Furthermore, we reviewed debt collection program activities from July 1, 2007, through December 31, 2008.

EXECUTIVE SUMMARY

OFFICE OF STATE CONTROLLER ACCOUNTS RECEIVABLE

Results in Brief

Improvements are needed to the accounts receivable reporting and debt collection processes. The Office of State Controller's June 30, 2008, statewide accounts receivable report was not reliable because some agencies reported inaccurate or unsupported amounts, did not report accounts receivable information, or reported untimely. The Office can improve the quality and reliability of its statewide receivable reports by enhancing its review of agencies' accounts receivable reports and the guidance it provides to agencies. Furthermore, agencies often submitted debts for collection that were significantly aged and did not participate in the debt offset program. With the passage of certain legislation during the 2009 Legislative Session and changes to its information system, the Office can rectify many of these issues.

Principal Findings

- Our review of three large agencies found that none of them reported accounts receivable to the Office completely or accurately. In addition, some receivable ledgers had mathematical errors or did not contain necessary information. As a result, the Office's June 30, 2008, statewide accounts receivable report, which showed \$482 million in receivables, was inaccurate and understated. (page 13)
- Some receivables were not reported to the Office because agencies misunderstood what should be reported, system limitations hindered the accuracy of reports, and agencies did not identify all reportable receivables. Had the Office developed processes to improve the accuracy and completeness of agency

EXECUTIVE SUMMARY

OFFICE OF STATE CONTROLLER ACCOUNTS RECEIVABLE

submissions, some unreported receivables could have been identified. (page 14)

- The Office did not adequately document and confirm modifications it made when agency receivable reports were inaccurate, incomplete, or not submitted. We found the Office made changes to 25 of 45 agency accounts receivable reports for June 30, 2008, adding about \$19 million to amounts reported as being at collection companies, amounts estimated uncollectible, and the total receivables balance. Without sufficient documentation we could not always determine whether changes made were accurate or appropriate. (page 15)
- Our review found five agencies did not routinely file quarterly accounts receivable reports even though they submitted debts to the Office for collection. These agencies should have reported receivables to the Office totaling at least \$18.4 million at June 30, 2008. (page 16)
- One third of agencies' reports due for the quarter ended September 30, 2008, had not been submitted 4 months after the due date. Even though agencies failed to prepare and submit reports in a timely manner, the Office did not have established procedures for contacting and following up with agencies that missed reporting deadlines. (page 18)
- Our review of year-end receivable reports found that agency estimates regarding the collectability of accounts receivable were not always based on sound assumptions. The Office needs to provide more detailed guidance for agencies to reasonably estimate the collectability of accounts receivable. In addition, the Office has not reviewed agency methodology or calculations even when estimates provided by agencies were unreasonable. (page 19)

EXECUTIVE SUMMARY

OFFICE OF STATE CONTROLLER ACCOUNTS RECEIVABLE

- The Office did not always timely reconcile its record of state agencies' debts turned over for collection with collection company records. Furthermore, when reconciliations were performed, they were not always adequately documented or properly reviewed. (page 22)
- The Office's records of receivables turned over for collection activities contained inaccuracies. Office records for one agency varied significantly from the agency's records. In another instance, an agency submitted debts for collection that were not included in the Office's database. Finally, some Office records of receivables did not contain all necessary information, such as the date the debt was incurred. (page 23)
- The Office did not maintain an accurate record of past due receivables that were written off between July 1, 2007, and December 31, 2008. We found 76 debts totaling more than \$20,000 on the Office's schedule of written off receivables which were not approved by the State Board of Examiners or its clerk. (page 25)
- State agencies turned over debts to the Office's debt collection program which were often significantly aged. In general, collection rates decline as debts age. Because debts were over 2 years old on average when submitted to the Office for collection, some collection opportunities may have been missed. The Office recommended changes to statute which now require agencies to submit debts to the Office when they are 60 days past due. Therefore, the Office will need to develop procedures to monitor agencies and ensure debts are remitted for collection timely. (page 25)
- Improvements can be made to enhance the success of the Office's debt offset program. Specifically, efforts should be directed at encouraging more agencies to participate in the debt offset program.

EXECUTIVE SUMMARY

OFFICE OF STATE CONTROLLER ACCOUNTS RECEIVABLE

Our review of debts found at least \$20,000 more could have been collected through debt offsets had more agencies been involved in the program. While this amount is not significant, it is more than what was collected through offsets during all of fiscal years 2008 and 2009. (page 27)

- The Office is taking steps to improve its processes over monitoring accounts receivable and increasing the collection of the State's accounts receivable. During the 2009 Legislative Session, the Office requested changes to statute which will increase agency participation in collection activities. Additionally, the Office is implementing a new IT system aimed at improving efficiencies in the Office's receivable reporting, debt collection, and debt offset programs. Finally, the Office is increasing its training for agencies in understanding accounts receivable, meeting reporting requirements, and improving collection of accounts receivable. (page 29)

Recommendations

This report contains 13 recommendations to improve the Office's accounts receivable reporting and debt collection processes. Specifically, we made five recommendations to enhance the accuracy of the statewide accounts receivable report. Additionally, two recommendations relate to documenting changes and enhancing access to reports. The remaining six recommendations relate to improving the accuracy of debt collection records and improving the effectiveness of related processes. (page 39)

EXECUTIVE SUMMARY

**OFFICE OF STATE CONTROLLER
ACCOUNTS RECEIVABLE**

Agency Response

The Office, in response to the audit report, accepted the 13 recommendations. (page 35)

Introduction

Background

The Office of State Controller (Office) was established by the Nevada Constitution in 1864. The Controller is one of six constitutional officers of the State and is elected to a term of 4 years. The Controller serves as the State's chief fiscal officer responsible for administering the state accounting system, paying claims against the State, publishing the State's financial statements, and managing the State's debt collection program. The mission of the Office of State Controller is to administer the system to permit fair, accurate, consistent financial reporting that provides current and historical financial information.

The Office has locations in Carson City and Las Vegas and is primarily funded with general fund appropriations. The Office is divided into four functional areas: operations, financial reporting, information technology, and debt collection. During fiscal year 2009, the Office had 45 authorized positions, 4 of which were dedicated to debt collection functions within the Office.

An account receivable is an amount owed to a state agency from an entity that has purchased products, received services, or owes a tax, fine or fee. Receivables are assets and represent potential uncollected revenues for the State. State agencies, boards, and commissions are responsible for recording, tracking, and collecting their accounts receivable. During our audit, when agencies completed normal collection efforts, they could choose to turn receivables over to the Office to perform debt collection activities.

The goal of the Office's debt collection function is to increase collections of past due amounts and decrease the total outstanding debt owed to the State of Nevada. The debt collection function within the Office is divided into three general programs including debt collection, debt offset, and accounts receivable reporting.

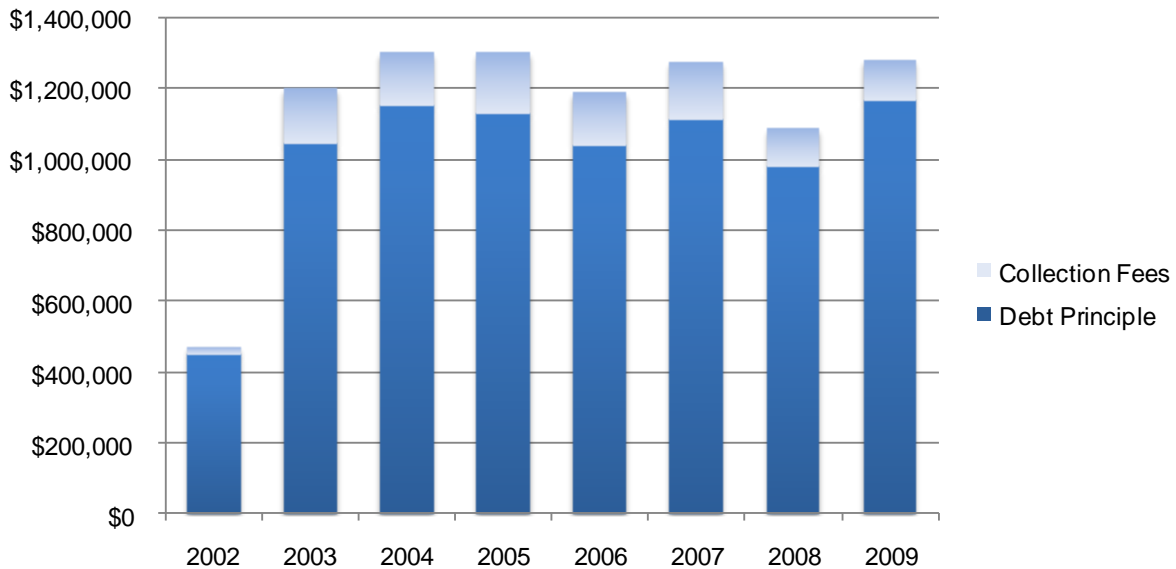
Debt Collection Within the Office of State Controller

The Office utilizes the services of debt collection companies to pursue collection on debts. Debts must be submitted to the Office by the responsible state agency in

order for collection activities to commence. The Office contracted with one collection company to perform certain debt collection activities through August 31, 2008. As of September 2008, three new collection companies were contracted to collect past due debts. Each collection company is compensated based on a percentage of the amount collected. Through fiscal year 2009, debt principle collected through collection companies totaled nearly \$8.0 million. Exhibit 1 shows the amounts collected by debt collection companies from fiscal years 2002 to 2009.

Exhibit 1

**Collection Company Annual Debt Collections
Fiscal Years 2002 to 2009**



Source: State Accounting System.

Note: Collection fees are amounts retained by the collection companies. For debts greater than \$200 through June 30, 2009, collection fees were in addition to the debt principle.

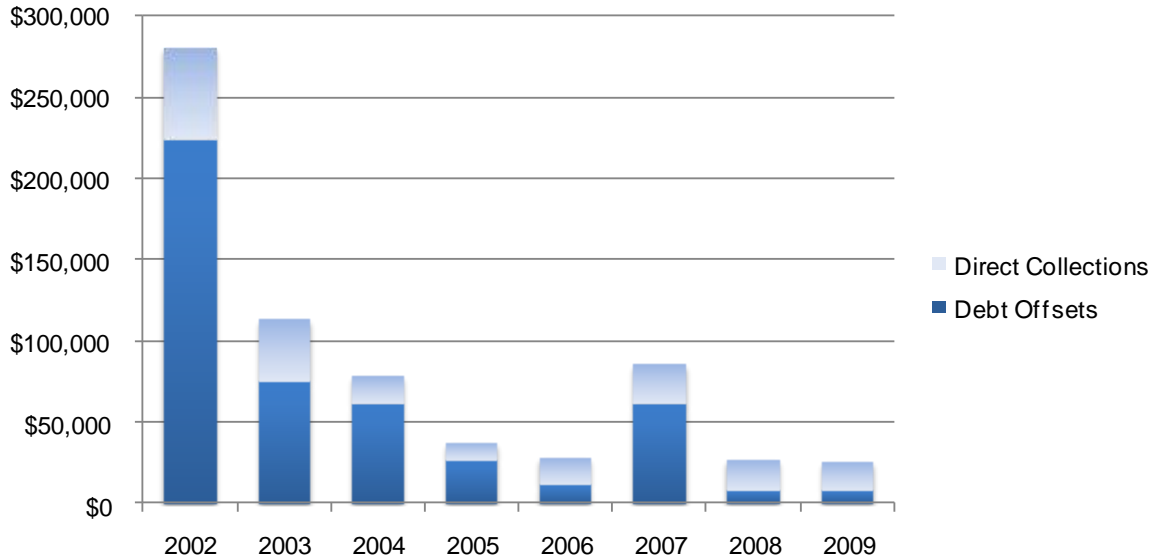
Debt Offset Program and Direct Collection Efforts

The Office is authorized to stop a payment intended for a debtor that owes money to a state agency. In the debt collection program, debtors are reviewed to identify whether they are active vendors for the State. A payment hold is placed on active vendors who are debtors to intercept payments which are redirected to the state agency who is owed funds. The Office also collects some debts directly from the debtor. These direct collections are primarily state employee payroll overpayments.

Debt offsets and direct collections for fiscal year 2002 through fiscal year 2009 totaled more than \$600,000. Exhibit 2 shows collections through debt offset and direct collection efforts by the Office from fiscal years 2002 to 2009.

Exhibit 2

**Debt Offsets and Direct Collections
Fiscal Years 2002 to 2009**



Source: State Controller's Office records.

Note: Fiscal year 2002 represented the first full year of these programs and capitalized on outstanding balances from prior years that may not have been subjected to sufficient collection activities. In addition, fiscal year 2002 direct collections include an unspecified amount of debts that may have been collected in fiscal year 2001.

Accounts Receivable Reporting

State law requires state agencies to submit listings of accounts receivable on a routine basis to the Office. The Office has requested agencies report outstanding accounts receivable at the end of each quarter. The quarterly reporting form requires agencies to report receivables based on the number of days past due and debts turned over to the Office for collection activities. The report for each fiscal year ended June 30 also requires agencies report cash receipts in the 60 days after fiscal year-end and an estimation of receivables deemed to be uncollectible. The Office combines all agency reports and uses the information to monitor the State's collection efforts and to prepare the State's financial statements.

Legislative History of State Debt Collection

The LCB Audit Division issued an audit report in January 1998 on the management and collection of the State's receivables. The audit found state agencies lacked critical information and mechanisms necessary to effectively collect accounts receivable. It also recognized the need for an entity to centralize debt collection efforts. Subsequent to the audit, during the 1999 and 2001 Legislative Sessions, a legal framework for improving the collection of the State's receivables was created under Nevada Revised Statute Chapter 353C – Collection of Debts Owed to State Agency.

Some of the collection mechanisms created in NRS 353C for state agencies included authorization for administrative liens, provisions to conduct debt offsets, use of collection agencies, and debt repayment installment plans. This chapter also gives specific responsibilities to the Office regarding accounts receivable and debt collection. These responsibilities include performing debt offsets, collecting routine reports on agencies' outstanding receivables, and acting as a collection agent when requested by a state agency.

During the 2009 Legislative Session, Assembly Bill 87 was passed which modified key provisions of NRS 353C related to the Office's debt collection program. Specifically, the bill requires the State Controller to act as the collection agent for all agencies which do not have specific statutes concerning debt collection or who have not obtained a waiver from the State Controller authorizing the agency to engage in its own collection efforts. The bill also requires agencies to assign their debts to the State Controller for collection within 60 days after the debt becomes past due or such other time agreed upon by the agency and the State Controller.

Scope and Objectives

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada

citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

The objectives of the audit were to:

- determine if the statewide accounts receivable report is reliable; and,
- determine whether debt collection procedures at the Office of State Controller help ensure collection of state receivables.

Our scope included a detailed review of the Office of State Controller's accounts receivable report at June 30, 2008, with certain activities performed on the September 30, and December 31, 2008, reports. Furthermore, we reviewed debt collection program activities occurring during the 18-month period from July 1, 2007, through December 31, 2008.

Findings and Recommendations

Improvements are needed to the accounts receivable reporting and debt collection processes. The Office of State Controller's June 30, 2008, statewide accounts receivable report was not reliable because some agencies reported inaccurate or unsupported amounts, did not report accounts receivable information, or reported untimely. The Office can improve the quality and reliability of its statewide receivable reports by enhancing its review of agencies' accounts receivable reports and the guidance it provides to agencies. Furthermore, agencies often submitted debts for collection that were significantly aged and did not participate in the debt offset program. With the passage of certain legislation during the 2009 Legislative Session and changes to its information system, the Office can rectify many of these issues.

Accounts Receivable Reporting Process Needs Improvement

Improvements are needed to the accounts receivable reporting process. The Office of State Controller's June 30, 2008, statewide accounts receivable report showing over \$482 million in amounts owed the State was not reliable because some agencies reported inaccurate or unsupported amounts, did not report accounts receivable information, or reported untimely. Additionally, agency estimates regarding the collectability of accounts receivable were not always reasonable or supported. Furthermore, quarterly reports of receivables due to the State were not readily available to the public or fiscal oversight agencies. Accurate and reliable accounts receivable information is necessary to evaluate anticipated state revenues and maximize collections. By improving its review of agency reports, analyzing related estimates and assumptions, and enhancing the guidance it provides to agencies regarding accounts receivable, the Office can improve the quality and reliability of its statewide accounts receivable reports.

Procedures Needed to Ensure Reliable, Accurate, and Complete Reports Submitted by Agencies

Agency accounts receivable reports, used to generate the statewide report, were often inaccurate and incomplete. Agencies did not always maintain accurate, detailed

ledgers to adequately determine amounts due. In addition, agencies did not always report all amounts due. As a result, the statewide accounts receivable report was understated at June 30, 2008. Modifications were made by the Office to correct agency reports but changes were inadequately documented and could not always be validated. Furthermore, some agencies were not routinely reporting accounts receivable to the Office and others were not reporting timely even though reports are required by statute. The Office needs to develop a process to improve the accuracy and completeness of reported accounts receivable. Unless steps are taken to improve the reliability of agency reports, the statewide accounts receivable report generated by the Office will continue to contain unreliable and incomplete information.

Accounts Receivable Ledgers Unreliable

Some state agencies reported incomplete or inaccurate receivable balances to the Office at June 30, 2008, because subsidiary ledgers were not maintained or reliable. Our review of three agencies' supporting documentation found that none of them reported accounts receivable completely or accurately. These agencies did not have reliable accounts receivable ledgers or other support to properly generate quarterly reports sent to the Office. In addition, when ledgers were used to track and monitor receivables, they often included errors or did not contain necessary information. As a result, the statewide accounts receivable report prepared by the Office was inaccurate and understated. Better guidance and improved procedures by the Office would help alleviate these errors.

The Office's Accounting Policies and Procedures require agencies to maintain subsidiary ledgers of receivables which should include opening balances, additional amounts due, payments received, and an ending balance. Ledgers should be maintained in sufficient detail to verify and validate a debtor's history in case disputes arise. Furthermore, accounts receivable subsidiary ledgers should be updated and reviewed by management at least monthly.

Our review of agency subsidiary ledgers found several errors including improper maintenance and mathematical errors. Following are examples of errors found on

agency ledgers which resulted in inaccurate amounts being reported to the Office at June 30, 2008.

- **Agencies did not maintain ledgers for amounts due the State. For example, the Department of Education, Training and Rehabilitation (DETR) did not maintain an accounts receivable ledger for certain receivables since 2003. Although DETR reported more than \$2 million to the Office related to these receivables at June 30, 2008, we could not verify whether this amount was accurate. Furthermore, DETR assumed these amounts were being remitted because they have a high probability of collection; however, it does not have assurance amounts are being recovered adequately or timely because payments received are not tracked in a receivable ledger.**
- **Subsidiary ledgers contained formula and mathematical errors resulting in some account balances not being included in totals, incorrect account balances, and excessive interest accrual. For instance, a subsidiary ledger for one tax type for the Department of Taxation contained mathematical errors of nearly \$3.5 million because amounts were not included in totals and balances were not mathematically correct. Originally, the Department reported \$1.2 million in receivables related to this tax type; however, our review found it should have reported about \$4.7 million.**
- **Ledgers did not always contain all necessary information to ascertain correct account balances. For example, receivable amounts in reports generated by the Department of Motor Vehicles' bad debt system did not reflect payments received on some accounts. As a result, the Department overstated some receivable balances on its report to the Office.**
- **Agencies reported receivables at dates other than the quarter end due to how subsidiary ledgers were maintained in agency systems. As a result, some balances reported were not outstanding at the date specified, thus overstating amounts reported.**
- **One agency added collection agency fees totaling nearly \$900,000 to receivable balances in its report to the Office. Since these do not represent amounts due the State, they should not be reported as receivables.**

Improved review by the Office can identify agencies needing assistance in the preparation and maintenance of accounts receivable ledgers to ensure accounts receivable submissions are accurate and complete. Ultimately, the Office can improve the reliability and accuracy of its statewide accounts receivable reports.

Receivables Not Reported

Some agencies did not have adequate processes in place to ensure all receivables were captured and reported properly to the Office. As a result, deficiencies in agency reports resulted in an understatement of the June 30, 2008, statewide receivable report.

Our review of three agencies' supporting documentation found that each agency did not fully report all accounts receivable due the State at June 30, 2008. Some receivables were not reported because agencies misunderstood what should be reported, system limitations hindered the accuracy of reports, and agencies did not identify all reportable receivables. Following are examples of agencies not reporting all accounts receivable for June 30, 2008.

- **The Department of Taxation did not report revenue receivables at June 30, 2008. Accounting policies and procedures issued by the Controller's Office state agencies shall record revenue receivables using the accrual basis of accounting. Had the Department of Taxation reported these receivables, the statewide report would have shown significantly more receivables due at June 30, 2008. Taxation stated that they have never reported these amounts to the Office because they do not consider them to be receivables since they are paid timely.**
- **The Department of Employment Training and Rehabilitation did not report receivables for certain taxes that were unpaid or short paid for the June 30 reporting quarter. This resulted from the Department using two separate sources to capture receivable data but neither captured all of the amounts due.**
- **The Department of Motor Vehicles did not report receivables maintained in an older information system because reports were not easily obtained and information was not accurate. The Department estimated these receivables totaled about \$2.4 million.**
- **The Department of Motor Vehicles also did not report certain receivables generated as a result of audits performed. The Department indicated these receivables were not reported because they had not been communicated to its Division that prepared the accounts receivable reports. These receivables totaled more than \$900,000 at June 30, 2008.**

Had the Office developed processes to improve the accuracy and completeness of agency submissions, some of these reporting deficiencies could have been corrected. Furthermore, improvements to the Office's guidance on reporting receivables could mitigate agency confusion regarding what should be reported.

Inadequate Process to Correct Reporting Errors

The Office did not adequately document and confirm modifications it made when agency receivable reports were inaccurate, incomplete, or not submitted. We found the Office made changes to 25 of 45 agency accounts receivable reports for June 30, 2008. These changes added about \$19 million to amounts reported as being at collection companies, the amount estimated to be uncollectible, and the total balance. Based upon the limited information originally reported by agencies, changes made by the

Office may be reasonable; however, without sufficient documentation, we could not always determine whether changes made were accurate or appropriate.

Our review of agency reports found that modifications made by the Office were not always correct. For example, the Office added about \$6.5 million to Department of Motor Vehicles (DMV) reports. However, discussions with DMV staff indicated that changes were not wholly appropriate and ultimately added more to the receivable total than was actually outstanding.

The Office needs to establish procedures to adequately confirm and document modifications the Office makes to agency reports. This will help ensure that modifications made are proper, thus increasing the reliability of the statewide accounts receivable reports.

Controller's Office Instructions Need Improvement

The Office needs to enhance the guidance it provides to agencies to assist them in submitting complete and accurate receivable reports. The Office's instructions related to quarterly reporting are limited to cursory descriptions of what information is needed in each of the fields on the accounts receivable reporting form. Some of the mistakes we identified in agencies' accounts receivable reports may have been avoided if agencies better understood what the Office expected in their reports.

The need for additional guidance was also identified in the Office's accounts receivable survey of agencies in 2008. The survey results indicated the Office can do more to inform and instruct agencies with regards to accounts receivable. Some agencies indicated they would like clear instructions on how to compile the accounts receivable report.

Not All Agencies Submit Reports

The Office has not assured that all agencies maintaining and monitoring accounts receivable have reported these amounts as required. Our review found five agencies did not routinely file quarterly accounts receivable reports even though they submitted debts to the Office for collection. These agencies should have reported receivables to the Office totaling at least \$18.4 million at June 30, 2008. Furthermore, some agencies did not report receivables or debts and the Office did not determine whether these agencies were maintaining and monitoring accounts receivable. The

completeness of the statewide receivable report could be enhanced if the Office identified non-reporters and pursued agencies to submit reports.

While the Office has worked with some non-reporting agencies regarding reporting receivables, not all known non-reporters were pursued. NRS 353C.120 requires all agencies, including boards and commissions, to report receivables to the Office. These reports are to be submitted quarterly according to the Office's accounting policies; yet, the Office did not request reports from agencies known to have accounts receivable. Exhibit 3 shows certain agencies that submitted debts to the Office for collection but did not remit quarterly reports.

Exhibit 3

**Non-Reporting Agencies With
Debts Submitted for Collection
June 30, 2008**

Agency	Total Debt Submitted for Collection	Total Agency Receivables
Nevada State Contractors Board	\$3,073,773	\$ 4,276,254
Division of Insurance	1,941,250	2,884,188
Division of Welfare	1,819,509	9,464,092
Pharmacy Board	1,795,189	1,795,189
Office of the Secretary of State	260,291	Not Known
Totals	\$8,890,012	\$18,419,723

Source: State Controller's Office and State agencies' records.

Note: The information in the total agency receivables column is based upon documentation and information obtained from the respective agencies. However, test work was not conducted on these balances to determine their accuracy and completeness. The Division of Insurance reported receivables for June 30, 2008, but did not report until November 2008. As a result, they were not included in the June 30, 2008, statewide accounts receivable report used in this analysis.

Furthermore, some agencies have not historically submitted reports to the Office even though they maintain accounts receivable. The Office did not routinely contact agencies who never reported to determine if accounts receivable were part of the agency's operations. For example, the Division of Parole and Probation did not submit reports regarding receivables prior to March 31, 2009, even though they have maintained accounts receivable since quarterly reports to the Office were required by statute beginning in 1999. As of March 2009, the Division of Parole and Probation indicated its receivables amounted to over \$26 million; \$19 million of which relate to

individuals no longer under supervision. During our audit, the Office held discussions with the Division of Parole and Probation regarding their non-reporting of receivables.

The Office does not have policies and procedures to identify non-reporting agencies and determine if reports should be remitted. Because the Office's duties regarding the collection of receivables has increased due to legislation passed during the 2009 Legislative Session, identification of all amounts due the State from all agencies has become more essential to the Office's oversight process.

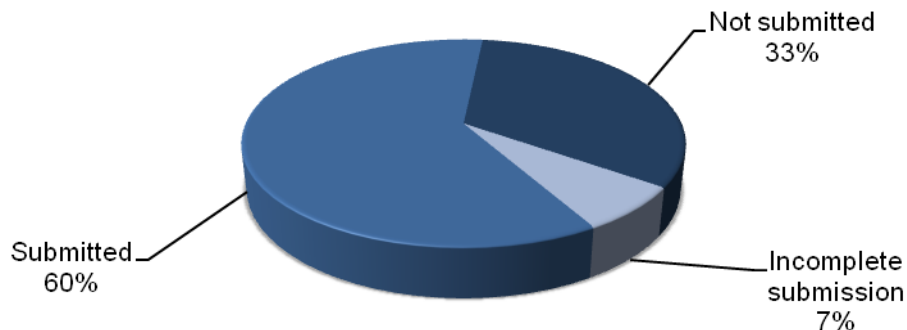
Untimely Report Submissions

The Office did not have established procedures for contacting and following up with agencies that missed reporting deadlines. This contributed to agency quarterly reports being submitted months after established deadlines which delayed the preparation of statewide accounts receivable reports.

Although state agencies are required by NRS 353C.120 to submit reports of accounts receivable to the Office, many do not do so within the timeframe dictated by the Office. The Office's accounts receivable reporting instructions require agencies to submit receivable reports to the Office one month after quarter end. Exhibit 4 shows the percentage of routine accounts receivable reporters for the quarter ended September 30, 2008 had not submitted reports 4 months after the October 31, 2008 deadline.

Exhibit 4

**Delinquent Accounts Receivable Reports
Quarter Ended September 30, 2008**



Source: State Controller's Office records.

Note: Information as of February 27, 2009. Incomplete submissions represent an agency with at least one division that did not submit a report.

Quarterly reports need to be received timely to capture relevant and useful receivable data. However, the Office did not have processes in place to contact and inform agencies of impending due dates or late filings. Although the Office did contact some late filing agencies during our audit, there were no procedures dictating when and how notices would be made.

Estimated Collectability of Receivables Not Reasonable

The Office needs to provide more detailed guidance for agencies to reasonably estimate the collectability of accounts receivable. In addition, the Office has not reviewed agency methodology or calculations, even when estimates provided by agencies were unreasonable. Our review of year-end receivable reports, which require agencies to determine the dollar value of accounts not likely to be collected, found that agency estimates were not always based on sound assumptions. The accuracy of collectability estimates improves the usefulness of the Office's statewide accounts receivable report in preparing the State's financial statements and assessing the revenue potential of receivables.

Accounts receivable reporting instructions issued by the Office require agencies to allocate total receivables between estimated collectible and uncollectible amounts. Methods for estimating uncollectible accounts receivable require consideration of both historical collection experience and current economic conditions since collectability may change as economic conditions change. In addition, an analysis should be performed on groups of accounts with similar collection risk and should include an evaluation of individual accounts to determine the debtors' ability to pay.

Estimates of collectability shown on year-end reports were not always reasonable. Our review of reports found more than 54% of the receivables at June 30, 2008, were more than 60 days past due. However, agencies estimated only 14.7% of receivables to be uncollectible. Included is the Department of Taxation's estimate that all sales, use, modified business, business license, estate, and certain excise tax receivables were collectible even though about 12%, equaling \$18.5 of the \$155.6 million total for these taxes, were more than 5 years past due. The likelihood of collection is nominal for debts this old. Exhibit 5 shows total receivables by aging

category reported to the Office for June 30, 2008, and the amount agencies estimated to be uncollectible.

Exhibit 5

**Statewide Accounts Receivable Report
Aged Receivables and Estimates of Collectability Totals
June 30, 2008**

Current	31-60 days past due	60+ days past due	Submitted to Controller for Collection	Total Receivables	Estimated Collectible	Estimated Uncollectible
\$172,742,241	\$18,962,401	\$263,020,741	\$27,410,694	\$482,136,077	\$411,433,021	\$70,703,056
35.8%	3.9%	54.6%	5.7%	100%	85.3%	14.7%

Source: State Controller's Office records.

Note: Data from the Office's June 30, 2008, year-end receivables report.

Furthermore, our review of agency estimates found some agencies did not adequately define or document the methodologies used for calculating the estimate of collectability. For example, one agency used the assumption that 25% of its receivables were not collectible. Although this percentage may be valid, it was not based upon an analysis of historical collection rates or individual accounts.

The Office needs to provide more detailed guidance to agencies on appropriate methods agencies should consider when estimating the collectability of their receivables. Current instructions indicate that agencies must determine the collectability of accounts but do not provide guidance regarding how estimates should be made. Furthermore, the Office does not review agency estimates, even though amounts reported are often unreasonable when compared to other reported totals. Additional guidance and review by the Office will help in establishing a consistent and reasonable estimate of the collectability of the State's receivables.

Public Access to Reports Needed

Accounts receivable reports are not readily available in a location for the public or state agencies to access. In addition, the Office does not routinely distribute reports to entities that provide fiscal oversight to State agencies. Currently, accounts receivable reports are available only if requested, even though the Office has been given the authority to make reports public.

Transparency in government is important to citizens' ability to monitor the effectiveness and efficiency of operations. The Legislature identified the value of making these reports available for inspection in NRS 353C.120, section 2, which states:

“Except to the extent that the information on the reports is declared to be confidential by a specific statute of this state or federal law, the State Controller shall make the reports available for public inspection and may, without charge, make available for access on the Internet or its successor, if any, the information contained in the reports.”

Accounts receivable reports contain important information regarding the effectiveness of agency revenue collections. This information may be useful to entities that provide fiscal oversight for state agencies as well as the public. While reports are not currently available over the Internet, or widely distributed, the Office is working toward making reports more accessible.

Recommendations

1. Develop a process to improve the accuracy and completeness of reported accounts receivable.
2. Establish procedures to adequately confirm and document modifications to agency accounts receivable reports.
3. Enhance reporting instructions to guide agencies in preparing accurate and complete receivable reports.
4. Work with agencies that are not reporting receivables.
5. Develop policies and procedures to ensure agencies are notified of impending accounts receivable report due dates and proper follow-up is conducted when agencies have missed reporting deadlines.
6. Develop guidance for state agencies regarding appropriate methodologies for calculating the estimated collectability of receivables and review the reasonableness of agencies' methodologies.
7. Enhance efforts to make accounts receivable reports easily accessible to state agencies and the public.

Enhancements to Debt Collection Process Needed

Enhancements are needed to the Office's debt collection process to increase the likelihood that debts will be collected. For instance, reconciliations need to be completed timely between Office debt records and those of each collection company to ensure collection companies remit collections properly. In addition, the Office needs to enhance its processes to improve the accuracy and completeness of its record of debts turned over for collection to ensure all debts are submitted. Furthermore, collections should increase if debts are submitted to collection companies more timely and enhancements to the debt offset process are made.

Reconciliations Not Completed Timely

The Office did not timely reconcile its record of state agencies' debts turned over for collection against collection company records. We found the average time between reconciliations was about 7 months. Furthermore, when reconciliations were performed, they were not always adequately documented or properly reviewed. Reconciliations provide assurance that Office records are accurate and collection companies are remitting payments timely.

The Office does not have policies and procedures requiring routine reconciliations between Office and collection company records. As a result, reconciliations were not performed timely or consistently. When reconciliations were performed, they were not always proper. Our review of completed reconciliations found the Office did not always properly document or review reconciliations. We found one of five reconciliations reviewed contained significant reconciling items which were not sufficiently documented. As a result, we could not determine whether the records actually reconciled. In one instance, agency records indicated a debt was withdrawn but the collection company listed it as an active debt. In addition, the debt amount reported by the collection company did not agree to the Office's records; but, the reconciliation did not sufficiently document or explain the difference. We also found all five reconciliations we reviewed did not contain evidence that management reviewed and approved the reconciliations.

Policies and procedures over the reconciliation of Office records to collection company records needs to be developed to ensure timely and proper reconciliations are

completed. Reconciliations provide assurance that collection companies have properly remitted collections to the Office and all state receivables are actively being pursued for recovery of funds owed.

Improvements Needed in Record Keeping

The Office can improve its record keeping of debts submitted for collection. Specifically, the Office's record of receivables turned over for collection was not always consistent with the record of the submitting state agency, did not contain all debts submitted by agencies for collection, and contained some incomplete records. Furthermore, the Office's record of debts approved for write-off by the Board of Examiners was not accurate. Accurate and reliable records are necessary to ensure collection companies have all information and appropriate debts are being pursued for collection.

Controller's Office Records Contain Inaccuracies

The Office's records of receivables turned over to collection companies contained inaccuracies. Office records for one agency varied significantly from agency records. In another instance, an agency submitted debts for collection which were not included in the Office's database and not transferred to collection companies. Finally, some debts submitted for collection did not contain important information, such as the date the debt was incurred.

Office records of debts did not always agree with State agency records. For instance, Office records for DMV indicated about \$6.5 million in receivables were at the collection agency at June 30, 2008. In comparison, DMV indicated debts at the collection agency were about \$2.6 million at that time. Office staff indicated they had not routinely updated the record of DMV debts due to the volume of debtors and frequency of changes associated with the debts. Because DMV represents a significant percentage of the debts collected by the Office's collection companies, maintaining an accurate record of DMV's debts is important. Exhibit 6 shows the amounts collected by collection companies for each state agency between July 1, 2007, and December 31, 2008.

**Collection Company Debt Recoveries by Agency
For the Period July 1, 2007 to December 31, 2008**

Agency	Amount Collected	Percentage of Total
Department of Motor Vehicles	\$1,366,338	90%
Department of Business and Industry	57,969	4%
Nevada State Contractors Board	42,292	3%
Department of Personnel	20,154	1%
Department of Public Safety	14,143	1%
Western Nevada College	7,431	< 1%
Department of Health and Human Services (Welfare)	4,232	< 1%
Department of Transportation	3,269	< 1%
Department of Employment, Training and Rehabilitation	1,543	< 1%
Department of Agriculture	1,531	< 1%
Other	2,626	< 1%
Total	\$1,521,528	

Source: State Controller's Office records.

In addition, the Office's record of debts submitted for collection did not include all debts submitted to the Office. Our review found about \$175,000 in debts submitted by an agency to the Office that were never entered into the Office's database. As a result, the debts were not turned over to the collection company. Proper controls over the submission and transfer of debts to the Office and collection companies would improve the reliability and accuracy of Office records.

Finally, we found the Office's record of accounts turned over for collection were not always complete. Specifically, we found about 670 accounts that either did not include the date that the debt was incurred or included an unreasonable date. Debt information is transferred to the Office by state agencies. However, the Office did not request clarification or ensure data was accurate or complete before submitting the debt for collection.

The Office does not have sufficient controls in place to ensure its record of accounts receivable referred for collection is accurate and complete. The errors we identified may have been avoided if the Office routinely compared its record of active debts submitted for collection with the records maintained by the state entities that submitted the debts.

Record of Written Off Debts not Accurate

The Office did not maintain an accurate record of past due receivables that were written off between July 1, 2007, and December 31, 2008. Statute allows for uncollectible receivables to be designated as bad debts by the Board of Examiners. The Board of Examiners is to notify the Office which maintains a record of the written off debts. However, the Office does not have policies and procedures dictating how they maintain a record of these debts or how to verify whether a request for write-off was approved.

We found 76 debts totaling more than \$20,000 on the Office's schedule of written off receivables which were not approved by the State Board of Examiners or its clerk. We also found 6 debts totaling \$159 which were approved for write-off but not included in the Office's schedule. Between July 1, 2007, and December 31, 2008, debts totaling about \$530,000 were approved for write-off.

Changes made during the 2009 Legislative Session resulted in additional responsibilities for the Office regarding bad debt write-offs. In addition to assuming the responsibility for managing the debt collection process for most agencies, the Office is also responsible for requesting authorization to write-off debts through the Board of Examiners. Therefore, maintaining an accurate and complete record of written off receivables will become more critical to the Office's debt collection process.

Age of Accounts Receivable Hinders Collection

State agencies often turned over debts to the Office's debt collection program when they were significantly aged. In general, collection rates decline as debts remain outstanding longer. Because debts were over 2 years old on average when submitted to the Office for collection, some collection opportunities may have been missed.

Our review found debts were significantly aged when submitted to the Office for collection. Exhibit 7 shows the age of accounts receivable, as of October 2008, by the fiscal year they were sent to the collection company.

Exhibit 7

**Age of Debts Turned Over for Collection
Debts Outstanding as of October 2008**

Fiscal Year Debts Sent to Collection Company	Average Age of Debts When Sent to Collection Company (in years)	Average Age of Debts as of October 2008 (in years)
2002	2.3	9.2
2003	2.1	8.0
2004	1.3	6.1
2005	1.4	5.2
2006	2.6	5.4
2007	1.9	3.7
2008	2.7	3.4
2009	1.9	2.2
Average	2.0	5.4

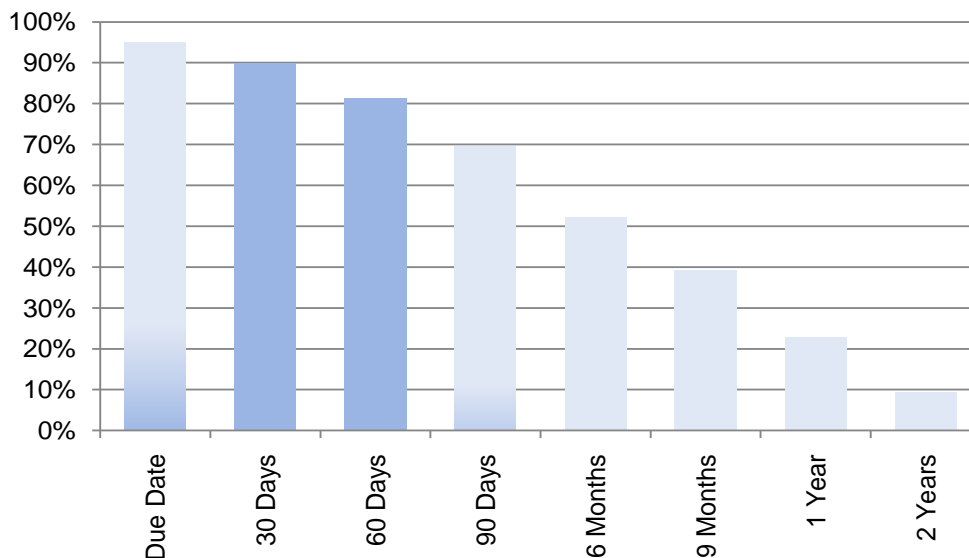
Source: State Controller's Office records.

Note: Debts outstanding as of October 29, 2008, and excludes Department of Motor Vehicles' debts. As of September 2008, the Office contracted with three separate companies. Therefore, debts may be at one of the three companies.

The United States General Accounting Office and the Commercial Collection Agency Association state the probability of collecting amounts due decreases significantly as the days in delinquency increase. Exhibit 8 shows the probability of collecting debts at increasing time intervals after debts are due.

Exhibit 8

**Collectability of Debts
At Time Intervals After the Due Date**



Source: Commercial Collection Agency Association; Commercial Law League of America.

Debts were aged when submitted to the Office because participation in the Office's debt collection program was voluntary. Consequently, agencies were not required to transfer debts to the Office at a specified time, or at all. As a result, the Office recommended changes to statute which were approved by the Legislature during the 2009 Legislative Session. These statutory changes now require agencies submit debts for collection to the Office when they are 60 days past due. However, the Office does not have processes in place to ensure debts are submitted timely or at all. Therefore, the Office will need to develop procedures to monitor agencies and ensure debts are remitted for collection timely.

Debt Offset Program Could Be Improved

Improvements can be made to enhance the success of the debt offset program. Specifically, efforts should be directed at encouraging more agencies to participate in the program. Our review of certain agencies' debts found at least \$20,000 more could have been collected in fiscal years 2008 and 2009 through debt offsets had more agencies been involved in the program. While this amount is not significant, it is more than what was collected through offsets during fiscal years 2008 and 2009 combined.

The Office can improve its process of informing, instructing, and encouraging agencies to participate in the program. Several agencies surveyed by the Office indicated additional training to educate and inform them regarding the program would be beneficial. While the debt offset process is an important collection technique, the program has had limited success in recent years. Declines in the success of debt offsets may be attributed to fewer agencies participating in the program. Exhibit 9 shows debt offsets completed from fiscal year 2002 to 2009.

**Debt Offsets
Fiscal Years 2002 to 2009**

Fiscal Year	Number of Transactions \$1 to \$999	Number of Transactions \$1,000 to \$4,999	Number of Transactions Greater than \$5,000	Total Number of Transactions	Total \$ Amount
2002	4	1	5	10	\$224,089
2003	2	2	2	6	74,782
2004	11	8	1	20	61,596
2005	15	0	1	16	27,073
2006	71	1	0	72	11,493
2007	99	4	3	106	60,665
2008	16	4	0	20	8,404
2009	25	2	0	27	8,595
Total	243	22	12	277	\$476,697

Source: State Controller's Office records.

Our review of certain debts found 4 debtors of about 100 reviewed were vendors paid by the State. In total, we identified about \$20,000 in fiscal year 2008 and 2009 payments made by the state which could have satisfied a portion of amounts owed. However, they were not captured because these agencies did not participate in the debt offset program. This represents more than the \$17,000 collected through the offsets completed in fiscal years 2008 and 2009 combined. As a result of our review, some agencies expressed interest in participating in the debt offset program in the future.

Pursuant to changes made during the 2009 Legislative Session, many agencies that did not previously participate in the debt offset program will now be included. However, some agencies may be exempt from requirements to turn debts over to the Office; therefore, the Office needs to develop a process to inform, instruct, and encourage all agencies to participate in the offset program.

Recommendations

8. Develop policies and procedures to perform routine reconciliations of active debts being managed by the collection agencies to Office records ensuring reconciliations are proper, adequately documented, and reviewed.
9. Routinely compare state agency records of debts turned over for collection to the records of the Office.

10. Develop procedures to improve the reliability and accuracy of records of debts submitted for collection.
11. Develop policies and procedures to ensure that an accurate and complete record of bad debts approved for write-off by the Board of Examiners is maintained.
12. Establish a process to ensure agencies remit debts timely to the Office to increase the probability of collection.
13. Encourage agencies exempted from the debt collection program to participate in the debt offset program.

Office is Working to Improve Oversight and Collection of Receivables

The Office is taking steps to improve its processes over the collection and monitoring of the State's accounts receivable. During the 2009 Legislative Session, the Office requested changes to statute which will increase agency participation in collection activities. Additionally, the Office is implementing a new system aimed at improving efficiencies in the Office's receivable reporting, debt collection, and debt offset programs. Furthermore, the Office is increasing its training for agencies in understanding accounts receivable, meeting reporting requirements, and improving collection of accounts receivable. If successful, these changes should improve the collection of State receivables.

Legislative Changes Expand Office's Role

The Office introduced a bill during the 2009 Legislative Session aimed at expanding the Office's role in improving collection of the State's receivables. Assembly Bill 87, which became effective July 1, 2009, made significant changes to the Office's responsibility for overseeing collection activities.

Assembly Bill 87 places responsibility for centralized collection efforts with the Office for most agencies; mainly those not having specific statutes concerning debt collection. Agencies will be required to turn over debts to the Office for collection 60 days after the debt becomes past due unless a waiver is obtained from the Office. Once a debt is remitted by an agency, the Office will be responsible for pursuing collection.

In addition to the Office's responsibility to act as the central collection agent for most state agencies, Assembly Bill 87 enhanced the State's collection process through other changes. Following are changes made during the 2009 Legislative Session that impact the Office's collection process.

- **An agency can refuse to conduct business with a person or entity that has an unpaid debt to the State. The State Controller is authorized to refuse payment to such a debtor.**
- **The State Controller can accept partial payment as satisfaction for the full amount of the debt if the State Controller believes that doing so is likely to generate more net revenue for the State than continuing efforts to collect the full amount.**
- **The State Controller can sell a debt where the time period to collect the debt has expired.**
- **The State Controller can appoint a private debt collector or other person as an agent to obtain a summary judgment against a debtor.**

Prior to these changes in statutes, State agencies' participation in the Office's debt collection program was voluntary. Through centralizing the collections process and enhancing collecting techniques, the probability of collecting the State's receivables should increase.

Technology Solutions Aimed to Enhance Reporting Accuracy and Collections

The Office is in the process of developing a new information system to improve reporting accuracy, make the accounts receivable reporting processes simpler and more efficient, and enhance debt collections. If the system functions as intended, it will manage information collection, collation, and the workflow process related to the State's debt collection efforts. It also should improve accuracy of records by reducing manual data entry and eliminating mathematical errors and incomplete submissions.

The Office is developing a system using eXtensible Business Reporting Language (XBRL) to manage the debt collection program. XBRL is a standard business reporting language for the electronic communication of business and financial information. The goal of this system is to generate cost savings, achieve efficiencies, and improve accuracy and reliability for those supplying or using financial data.

The Office's planned implementation of this system incorporates the accounts receivable reporting, debt collection, and debt offset programs. The project aims to gain efficiencies by reducing manual data entry, facilitating data transfers between all

agencies involved in debt collection, and improving the reporting process. For example, the Office's debt collection program currently requires agencies to submit spreadsheets or hard copy forms detailing debts for collection. Processing of this information is done manually. In the proposed system, agencies would access and input debts into electronic templates that will interface automatically with the Office's system. Additionally, the templates would contain certain validations to reduce common reporting errors. Furthermore, the system should facilitate the issuance of letters to debtors, recording of payments received, generation of management reports, and notifications to agencies regarding due dates.

Although the proposed functionality of the new system appears to significantly enhance the Office's debt collection and accounts receivable reporting programs, completion of the first phase of implementation has been delayed several months. Complete functionality will be contingent upon the successful implementation of multiple phases of the project.

More Training for State Employees Regarding Accounts Receivable

The Office is developing a training course to assist state employees involved with accounts receivable to improve record keeping and reporting. The Office plans to hold workshops to inform and instruct agencies regarding what constitutes a receivable, the proper basis of accounting, methods for estimating collectability, and proper aging of receivables. Additional topics include the Office's quarterly accounts receivable reporting and debt offset processes.

Improved training is meant to enhance agencies' understanding of accounts receivable. Consequently, agencies should improve the accuracy of accounts receivable records and enhance collections activities. Furthermore, training should enhance the reliability of the information reported to the Office, thus improving the reliability of statewide accounts receivable reports.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Office of State Controller's operations relative to the State's accounts receivable, we interviewed agency staff and reviewed state laws, regulations, policies, and procedures significant to the Office's operations. We also reviewed Office financial reports and analysis, prior audit reports, budgets, state accounting system records, minutes of legislative committees, and other information describing the activities of the Office. In addition, we identified relevant controls and assessed the adequacy of the control design related to accounts receivable reporting and debt collection activities of the Office.

To determine whether the Office's statewide accounts receivable report was accurate and reliable, we judgmentally selected three state agencies which represented three of the largest total accounts receivable balances at June 30, 2008. We met with agency staff to discuss their receivable reports, reporting processes, and reporting deficiencies. For each agency, we compared accounts receivable reports with agency subsidiary receivable ledgers and other supporting documentation. We determined whether the support was mathematically accurate and proper. Furthermore, we reviewed agency estimates regarding collectability of receivables to determine whether estimates were reasonable and adequately supported.

To identify agencies not reporting accounts receivable consistently to the Office, we selected all agencies with over \$150,000 in debts remitted to the Office for collection activities. Additionally, we reviewed Legislative Counsel Bureau Audit reports from the last 4 years and identified agencies who did not report receivables to the Office as stated in our report. We determined the amount that should have been reported for each agency and discussed reporting deficiencies with selected agency representatives. In addition, we identified instances where the Office modified agency reports.

To determine whether agencies submitted accounts receivable reports timely, we determined how many agencies were delinquent in reporting to the Office for the quarters ended September 30, and December 31, 2008. We reviewed for these deficiencies in February of 2009. We also assessed the Office's process for providing agencies with notification of impending report due dates and following up with those delinquent in reporting.

To determine how the Office could improve its accounts receivable reporting process, we assessed the adequacy of the Office's accounts receivable reporting instructions and other guidance provided to state agencies. Furthermore, we analyzed whether improvements could be made to the distribution of the Office's receivable reports to maximize utilization by the public and other entities.

To determine whether the Office's record of agency debts submitted for collection was accurate and complete, we obtained the Office's master files of debts turned over for collection at December 31, 2008. We then determined whether significant information from 20 randomly selected debts in the master files agreed to agency submissions. Similarly, we traced and agreed 20 randomly selected agency submissions to the master files. In addition, we randomly selected 40 debt collections from Office records and determined whether the amounts were properly recorded in the state accounting system, collection agency fees were accurate, and payments were properly reflected in the Office's master files. We also calculated the average age of outstanding debts when submitted for collection. Finally, we identified debts in the master files that did not contain sufficient information.

Next, we determined whether reconciliations between Office and collection agency records were current at December 31, 2008, and determined how frequently reconciliations had been completed. We also randomly selected five reconciliations and reviewed them for adequate documentation, completeness, accuracy, and supervisory review. We also determined the accuracy of the Office's record of written off bad debts by comparing the Office's record with Board of Examiners meeting minutes and other documentation.

To determine whether the Office was properly subjecting debts to the debt offset process, we selected the 406 largest debtors from the Office's master files and

determined whether the debtors were active vendors in the state accounting system and whether any payments should have been redirected to offset debts. We also randomly selected 20 debt offsets and determined whether the Office followed established procedures. To determine whether there were potential offsets at agencies not participating in the debt offset program, we selected 101 receivables exceeding \$5,000 from the Department of Education Training Rehabilitation and Department of Taxation and determined whether offsets could have been performed to satisfy part, or all of the debt. We also reviewed and assessed the adequacy of the Office's activities related to promoting and requesting agencies participate in the debt offset process.

Finally, we reviewed Assembly Bill 87 from the 2009 Legislative Session and its impact on the Office's accounts receivable processes. We also reviewed the Office's plans to implement a new information system to manage the Office's debt collection, debt offset and accounts receivable reporting functions.

Our audit work was conducted from July 2008 through July 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the State Controller. On January 26, 2010, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 35.

Contributors to this report included:

Daniel L. Crossman, CPA
Deputy Legislative Auditor

Shannon Ryan, CPA
Audit Supervisor

Tom Tittle, CPA, CIA, CFE
Deputy Legislative Auditor

Roland Erickson
Deputy Legislative Auditor

Appendix B
Response From the Office of State Controller



State of Nevada
Office of State Controller
Carson City, Nevada 89701-4786

Kim R. Wallin, CMA, CFM, CPA
State Controller

Office: (775) 684-5777
Fax: (775) 684-5696

February 3, 2010

Mr. Paul Townsend, CPA, CIA
Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701

Re: Legislative Counsel Bureau Audit Findings January 2010

Dear Mr. Townsend:

I have had the opportunity to review the Legislative Counsel Bureau (LCB) Preliminary Audit Report for Accounts Receivable and accept all 13 recommendations. Attached is the Controller's Office written response to the 13 recommendations provided in the Preliminary Audit Report.

The Controller's Office appreciates the work of the Legislative Audit staff and the thought and time they put into formulating the audit recommendations.

Please contact me if you need any additional information or clarification.

Sincerely,

Kim Wallin
Kim R. Wallin, CMA, CFM, CPA
Nevada State Controller

1. Our Office has developed detailed instructions on how to complete the accounts receivable report accurately. These instructions are available on our intranet website. **Completed**

We are also improving the guidance in our Accounting Policies and Procedures Manual by adding a detailed subsection on accounts receivable. **Estimated Completion Date February 17, 2010**

When the XBRL (Extensible Business Reporting Language) project is complete this will also improve the accuracy of the accounts receivable reports because of the validation features that can be put into the reporting template which will eliminate mathematical errors and missing data. **Estimated Completion Date December 31, 2010**

In addition we will be holding training classes on debt collection and accounts receivable reporting and procedures. Our first class will be February 17, 2010 and will hold additional classes. We will also be adding an on-line version of the training by June 1, 2010 to reach those who are not in Carson City.

It is my recommendation that DETR (Department of Employment Training and Rehabilitation) have an annual outside audit. Unemployment Compensation is a major fund in our CAFR (Comprehensive Annual Financial Report). They continue to have issues with their accounts receivable and accounting every year. It is our understanding that federal monies can be used to pay for the audit.

2. We will be establishing written procedures to adequately confirm and document modifications to agency accounts receivable reports. **Estimated completion date March 31, 2010**

The reporting system at this time does not lend itself to provide for adequate documentations when changes are made. With the new XBRL system any changes will be tracked and available for auditing and review purposes. **Estimated Completion Date December 31, 2010**

3. See response to number 1.
4. See response to number 1.

We will also be putting in additional procedures internally to identify agencies who should be reporting accounts receivable. **Estimated Completion Date March 31, 2010**

5. Our current practice is for my staff to send emails to the agencies reminding them of the deadlines. When the reports have not been received then they follow-up with additional emails and phone calls. When the agency still doesn't respond then the State Controller makes the calls personally to the agency.

We will be putting the procedures that we already have in place in writing and in addition they will be in our new supplemental accounts receivable manual for agencies. **Estimated completion date March 31, 2010**

The new XBRL system will send agencies an automatic reminder prior to the due date and when a report has not been received, additional reminders will be sent and we will continue with phone calls as mentioned above. **Estimated Completion Date December 31, 2010**

In order to improve agencies' compliance with NRS 353C.120 we are considering submitting a BDR that will fine the agencies when their reports are submitted late. The fines would go into the Debt Recovery Account.

6. We are improving the guidance in our Accounting Policies and Procedures Manual by adding a detailed subsection on accounts receivable and debt collection. This will include detailed instructions on how to calculate the estimated collectability of receivables. We will also be adding a requirement in our APPM (Accounting Policy and Procedures Manual) that agencies must submit to us in writing how they calculated their estimated collectable amounts. **Estimated Completion Date February 17, 2010**
7. We have already put accounts receivable reports on our internal State-wide website which gives access to all agencies for those who provide fiscal oversight. The general public has access on an annual basis through our CAFR which is available on our website. **Completed**
8. We will be putting the procedures that we already have in place in writing and will be enhancing others. **Estimated Completion Date March 31, 2010**

In addition, with the XBRL solution the reconciliations will be created automatically. **Estimated Completion Date December 31, 2010**

9. See response to number 8.
10. Our Office has developed detailed instructions on how to complete the debt placement form. These instructions are available on our intranet website. **Completed**

We are also improving the guidance in our Accounting Policies and Procedures Manual by adding a detailed subsection on debt collection. **Estimated**

Completion Date will be after the NAC is final.

When the XBRL (Extensible Business Reporting Language) project is complete this will also improve the accuracy of the dept placement forms because of the validation features that can be put into the reporting template. These features will eliminate mathematical errors and missing data. **Estimated Completion Date December 31, 2010**

In addition, we will be holding training classes on debt collection and accounts receivable reporting and procedures. Our first class will be February 17, 2010 and will hold additional classes. We will also be adding an on-line version of the training by June 1, 2010 to reach those who are not in Carson City.

11. We will put written procedures in place to verify that the debts approved by the Board of Examiners or its Clerk are transmitted to our Office and a record is maintained. **Estimated completion date March 31, 2010**
12. With the passage of AB87 we should see an improvement on debts being turned over to our office in a timely manner. Prior to AB87 it was voluntary for agencies to turn debts over to the Controller's Office.

We will be improving the guidance in our Accounting Policies and Procedures Manual by adding a detailed subsection on debt collection. **Estimated Completion Date will be after the NAC is final.**

We will be developing an internal policy to identify those agencies that are required to submit their debts in 60 days to ensure compliance of reporting. **Estimated Completion Date will be after the NAC is final.**

13. We will continue to put information on debt offset, and how agencies can participate, in our newsletter and on the website. **Completed**

We will be holding training classes on debt collection and accounts receivable reporting and procedures where debt offset will be covered. Our first class will be February 17, 2010 and will hold additional classes. We will also be adding an on-line version of the training by June 1, 2010 to reach those who are not in Carson City.

**Office of State Controller
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop a process to improve the accuracy and completeness of reported accounts receivable.....	<u> X </u>	<u> </u>
2	Establish procedures to adequately confirm and document modifications to agency accounts receivable reports.....	<u> X </u>	<u> </u>
3	Enhance reporting instructions to guide agencies in preparing accurate and complete receivable reports...	<u> X </u>	<u> </u>
4	Work with agencies that are not reporting receivables.	<u> X </u>	<u> </u>
5	Develop policies and procedures to ensure agencies are notified of impending accounts receivable report due dates and proper follow-up is conducted when agencies have missed reporting deadlines.	<u> X </u>	<u> </u>
6	Develop guidance for state agencies regarding appropriate methodologies for calculating the estimated collectability of receivables and review the reasonableness of agencies' methodologies.	<u> X </u>	<u> </u>
7	Enhance efforts to make accounts receivable reports easily accessible to state agencies and the public.	<u> X </u>	<u> </u>
8	Develop policies and procedures to perform routine reconciliations of active debts being managed by the collection agencies to Office records ensuring reconciliations are proper, adequately documented, and reviewed.	<u> X </u>	<u> </u>
9	Routinely compare state agency records of debts turned over for collection to the records of the Office.	<u> X </u>	<u> </u>
10	Develop procedures to improve the reliability and accuracy of records of debts submitted for collection.	<u> X </u>	<u> </u>
11	Develop policies and procedures to ensure that an accurate and complete record of bad debts approved for write-off by the Board of Examiners is maintained.....	<u> X </u>	<u> </u>
12	Establish a process to ensure agencies remit debts timely to the Office to increase the probability of collection.	<u> X </u>	<u> </u>
13	Encourage agencies exempted from the debt collection program to participate in the debt offset program.	<u> X </u>	<u> </u>
	TOTALS	<u> 13 </u>	<u> 0 </u>