OFFICE OF THE CITY CONTROLLER

HEALTH AND HUMAN SERVICES DEPARTMENT

**FOLLOW-UP OF THE ACCOUNTS
RECEIVABLE AND BILLINGS INTERNAL AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor

Report No. 06-06

ANNISE D. PARKER

August 4, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Health and Human Services Department
Follow-up of the Accounts Receivable and Billings Internal Audit
(Report No. 06-06)

Dear Mayor White:

The City Controller's Office Audit Division has completed a Follow-Up Review of the findings and recommendations that were presented in the Accounts Receivable and Billings Internal Audit report pertaining to the Health and Human Services Department (Department) (Report No. 04-30) issued on December 2, 2004. The purpose of our review was to determine the progress the Department has made towards implementing the recommendations made in the original report.

The report, attached for your review, concludes that the Department has made significant progress implementing the previous recommendations. Draft copies of the matters contained in the report were provided to Department management.

We appreciate the cooperation extended to our auditors by Department personnel during the course of their work.

Respectfully submitted,

Annise D. Parker
City Controller

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

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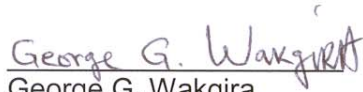
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PURPOSE AND SCOPE

We have completed a follow-up review of the findings and recommendations that were presented in the Accounts Receivable and Billings Internal Audit pertaining to the Health and Human Services Department (Report No. 04-30) issued on December 2, 2004. The purpose of our review was to determine the progress the Department has made towards implementing the recommendations made in the original report.

The scope of our review included: interviewing department personnel; reviewing relevant documentation related to recommendations implemented; and, applying other appropriate follow-up procedures. A matrix categorizing the status of action taken by management is included.

CONCLUSION

Based on the results of our review, we concluded that the Department has implemented the majority of the recommendations detailed in the original report. In some cases, however, the Department implemented acceptable alternatives rather than the original recommendations.

George G. Wakgira
Auditor-In-Charge

Richard Martinez
Audit Manager

Steve Schoonover
City Auditor

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CONCERNS NOTED	RECOMMENDATIONS	UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
Appropriate Authorization				
1. The Department does not have formal policies and procedures as required by the Executive Order 1-38 3.3.	Recommend the Department complete the development of their formal policies and procedures as required by the Executive Order.	The Department has developed an Accounts Receivable Policy in response to Executive Order 1-38.	We reviewed a copy of the Department's Accounts Receivable Policy and it appears to be adequate and in compliance with Executive Order 1-38. However, the policy has not been reviewed and approved by the Finance & Administration (F&A) Department as required by the above executive order.

In addition, the Department has procedures for recording of receivables for Laboratory billings, Multi-Service Centers lease billings, for processing related deposits, and for handling receivables resulting from NSF checks. | In Progress |
| **Cost Recovery** | | | | |
| 2. Grant receivables are not recorded. Revenues are rather recognized upon receipt of the reimbursements. | Recommend, for improved accountability, that receivables be recorded as reimbursement requests are submitted. | The Department follows the guidelines issued by the Finance and Administration and City Controller Departments to record revenues from reimbursement type grants.

On the other hand, the Department has established a receivable database to record all reimbursements requested and the payment received. | Although grant receivables are not recorded in AFMS, the Department monitors reimbursement requests in an Access Database. When reimbursement checks are received from the various granting agencies, the receipts are also recorded in this database. Periodically, the Supervisor prepares a monitoring report showing the total amount of reimbursement requested and the total amount of reimbursement checks received. Further, as part of the City's year-end closing procedures, the difference between the total amount that was requested and the total amount received is accrued | Acceptable Alternative Implemented |

CONCERNS NOTED	RECOMMENDATIONS	UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
			and reported on the City's year-end financial statements.	
Transaction Processing				
3. All of the Department's receivables are not recorded within the Department's fund accounting. Controls over receivables would be enhanced if all receivables were recorded in the City's financial system.	The Department would benefit from enhanced system capability for the maintenance of detail subsidiary ledgers, generation of aging and monitoring reports, integration with the City's financial system and application controls over receivable adjustments.	Currently, tracking of cash receipts and aging capability is not functional in the City's financial system (AFMS). Until the City acquires an A/R module with our new financial system (SAP) that has the ability to track and age receivables, we will continue to use our various Access A/R database which is the stand alone systems created to maintain the Department's A/R. However, with a new system (SAP) it does not seem feasible to build an interface between our A/R database systems and the City's system at this time.	Until the A/R system becomes operational in SAP, the Department is maintaining its A/R detailed information in an Access database. This information includes a list of customers with outstanding receivables aged by the number of days outstanding, write-offs list, and various A/R monitoring reports.	Acceptable Alternative Implemented
Determination of Net Realizable Value (Minimum Annually)				
4. Validation of realizable value is determined only as receivables are collected and revenues are recorded. As such, all recorded revenues are realizable, but no determination is made on unrecorded receivables.	Periodically receivables should be assessed as to their realizable values. This assessment should serve to prioritize collection efforts and on-going fees, late payment penalties, etc.	Receivable values are assessed on a monthly basis. Write off determinations are made on an annual basis.	We obtained and reviewed examples of aged accounts receivable reports along with their assessed realizable values for the Laboratory Services, Multi-Service Center Leases, other services and outstanding NSF checks. Collection letters are generated and mailed out periodically. In addition, we reviewed the write-offs list that was submitted at the end of fiscal year 2005. It should be noted that the NSF Check Write-off Report contains items as far back as 1998. Executing write-offs does not fall under the purview of the Health Department. Instead, this process requires	Implemented

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CONCERNS NOTED	RECOMMENDATIONS	UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
			the approvals of other City departments and the City Council.	
Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts (Minimum Annually)				
5. Reconciling of insufficient fund returned check receivables is ongoing, however historical balances have unreconciled historical adjustments that should be recorded.	No specific recommendation.	Accounts to be written off are determined by Business Management when all efforts of collection have failed. The write-offs are approved by the Assistant Director of Administrative Services and forwarded to the Controller's office for write-off.	We noted that currently the Department's A/R NSF shows a cumulative balance of approximately $224,000 of which 52,031 is recommended for write-offs.

NSF checks are recorded in AFMS by the Finance & Administration Dept. | Implemented |
Preparation of Reports & Analysis				
6. No formal or regular receivable monitoring reports are prepared.	For each type of receivable, long overdue or larger outstanding amounts should be reported and reviewed.	Receivable monitoring reports are prepared for the laboratory receivables, multi-service center leases, in-sufficient fund checks and grant reimbursements.	We reviewed various aged receivable reports that also serve as monitoring reports for outstanding receivables.	Implemented
Use of Reports to Evaluate and Improve Collections				
7.	As recommended above, the Department would benefit from a system that could track and age report all receivables consistently.	Currently, tracking of cash receipts and aging capability is not functional in the City's financial system (AFMS). Until the City acquires an A/R modular with our new financial system (SAP) that has the ability to track and age receivables, we will continue to use our various Access A/R database which is the stand alone systems created to maintain the Department's A/R. However, with a new system (SAP) it does not seem feasible to build an interface between our A/R database systems and the City's system at this time.	This is the City's AFMS limitation and, as such, does not fall under the purview of the Health Department.	No further action warranted