

Audit Highlights



Highlights of Legislative Auditor report on the Office of State Controller issued on April 13, 2010.
Report # LA10-11.

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 of Audit

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.

Audit 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.

The Office accepted the 13 audit recommendations.

Status of Recommendations

The Office's 60-day plan for corrective action is due on July 8, 2010. In addition, the six-month report on the status of audit recommendations is due on January 10, 2011.

Office of State Controller

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 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.

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 submissions, some unreported receivables could have been identified.

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. Without sufficient documentation we could not always determine whether changes made were accurate or appropriate.

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.

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.

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 and review agency methodology or calculations when estimates provided by agencies are unreasonable.

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.

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.

State agencies turned over debts to the Office's debt collection program which were over 2 years old on average when submitted. In general, collection rates decline as debts age; therefore, some collection opportunities may have been missed.

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. 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.

The Office is taking steps to improve its processes over monitoring accounts receivable and increasing the collection of the State's accounts receivable. 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. Finally, the Office is increasing its training for agencies in understanding accounts receivable, meeting reporting requirements, and improving collection of accounts receivable.