

An Audit Report on Improving the State's Accounts Receivable and Cash Receipting Processes

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Key Points Of Report

An Audit Report on Improving the State's Accounts Receivable and Cash Receipting Processes

December 1995

Overall Conclusion

Texas does not have the comprehensive accounts receivable information it needs to evaluate how well the State is doing in collecting its accounts receivable and to identify where improvements are needed. Additional information would enable state leaders and agency managers to identify problem areas, improve performance related to the administration of accounts receivable, and, thus, enhance revenues through improved cash management and earning of interest.

Key Facts And Findings

- The accounting categories now used to capture financial reporting information about accounts receivable are not detailed enough to support analysis of the relationship between different types of receivables and the revenue sources that generate them. We recommend that the Comptroller revise the set of accounts for reporting receivables. The State of Texas had \$3.5 billion of accounts receivable at August 31, 1994.
- Opportunities exist for the State to further minimize the time that elapses between provision of services and reimbursement from the Federal Government. Some inefficiencies have arisen because the process currently in place for receiving and spending federal funds is so decentralized and complex. We recommend that the Legislature direct a task force of representatives from selected legislative and executive agencies to identify specific solutions to improve the State's management of federal fund receipts and receivables.
- Opportunities exist at the Texas Department of Transportation and the Texas Parks and Wildlife Department to increase revenue by more than \$751,000 annually by improving the timeliness of license, fee, and permit collections. The Texas Parks and Wildlife Department has recognized the problems associated with their current procedures and plans to implement an automated point-of-sale issuance system.
- Opportunities exist at two of the State's medical components to continue improving the collection of patient revenue.

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This audit was conducted in accordance with Government Code, §321.0133.

Executive Summary

Texas does not have the comprehensive accounts receivable information it needs to evaluate how well the State is doing in collecting its accounts receivable and to identify where improvements are needed. Additional information would enable state leaders and agency managers to monitor and evaluate how well an agency is doing in collecting its receivables. By improving data collection and analysis, state leaders and agency managers would increase their ability to identify problems, improve performance related to the administration of accounts receivable, and, thus, enhance revenues through improved cash management and earning of interest.

At August 31, 1994, the State was owed over \$3.5 billion by various outside entities on accounts receivable. If the State could collect 10-50 percent of these receivables just one day earlier, \$48,000-\$240,000 in additional interest could be earned.

This report identifies opportunities to improve the collection of federal, license, fee, permit, and medical component patient revenues and to enhance the reporting of financial information on accounts receivable.

Gather Additional Accounts Receivable Information

The accounting categories now used to capture financial reporting information about accounts receivable are not detailed enough to allow analysis of the relationship between different types of receivables and the revenue sources that generate them. Correlation between receivables and revenue accounts is needed to assess whether receivables are reasonable in relation to revenue flows.

We recommend that the Comptroller revise the set of accounts for reporting receivables. Enhanced data capture and analysis would

help managers identify opportunities to improve the administration of accounts receivable.

Reduce Time and Costs Associated with Collecting Federal Funds

Opportunities exist for the State to further minimize the time that elapses between incurrence of services and reimbursement from the Federal Government. Some inefficiencies have arisen because the process currently in place for receiving and spending federal funds is so decentralized and complex. Potential areas for improvement include coordinating the collection of federal funds; eliminating unnecessary pass-throughs and processing remaining pass-throughs promptly; improving the timeliness of expenditure reporting; taking advantage of prompt payment methods; and requiring timely, accurate performance and financial data.

The Legislature should direct a task force of representatives of selected legislative and executive agencies to identify specific solutions to improve the State's management of federal fund receipts and receivables.

Bill, Collect, and Deposit License, Fee, and Permit Revenues in a More Timely Manner

Opportunities exist at the Texas Department of Transportation and the Texas Parks and Wildlife Department to increase revenue by more than \$751,000 annually.

The Texas Department of Transportation could improve revenues in its vehicle registration program by more than \$351,000 annually by:

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- assessing the reasonableness of revenues collected from sales of vehicle registration stickers
- enhancing the audit function over registration stickers
- identifying counties not investing deferred remittance fees in interest-bearing accounts
- improving the collection rate for late payments
- complying with electronic funds transfer statutes

A recent report by the State Auditor's Office (SAO Report No. 96-013) indicates that the Texas Parks and Wildlife Department is not able to promptly collect and deposit the more than \$50 million it receives annually from hunting and fishing licenses. If the time lag between collection by the retailers and deposit into the State Treasury could be decreased to one week, more than \$400,000 in additional interest could be earned annually. The Department has recognized the problems associated with their current procedures and plans to implement an automated point-of-sale issuance system.

Continue to Improve Collection of Patient Revenue at Medical Components

Opportunities exist at two of the State's medical components to improve the gathering of charges to be billed, to continue improving the patient account collection strategies, and to further coordinate improvements within the medical institutions. We reviewed the charge capture, billing, collection, and depositing strategies at The University of Texas M.D. Anderson Cancer Center and The University of Texas Medical Branch at Galveston.

Accounts receivable for the State's medical components amounted to more than \$322 million, or 9.2 percent of all accounts receivable for the State.

Issue for Further Study

One other issue was identified during the course of our audit. Additional study and analysis is necessary to identify specific opportunities for improvement. This issue will be considered for a future audit.

Additional study is needed to determine if a centralized collection function in the State could improve the collection of revenues and receivables. At least four other states have begun developing and implementing centralized collection functions. These functions range from a centralized state-run department to contracting with a private company to design, develop, implement, and manage the collection of all the debts owed to the state. Examples of debts collected include court fines, child support payments, student loans, and taxes.

Summary of Management's Responses

In general, management of each agency concurs with the recommendations in this report. Each agency's management response follows the individual findings in the Detailed Issues and Recommendations section, beginning on page five.

Summary of Audit Objective, Scope, and Methodology

Our audit objective was to identify ways to increase revenues by improving accounts receivable collection and cash receipting processes. In addition, we evaluated any deposits tested for compliance with the three-day deposit rule.

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The scope included a broad overview of the statewide management of accounts receivable, as well as a limited review of the management of specific receivables at specific agencies. At each level of review, we identified current policies and procedures and other controls used to ensure that receivables are accurately recorded and promptly collected and deposited.

The specific receivables and entities chosen were selected on the basis of risk. Risk factors considered include materiality, volume and complexity of the transactions, trends, and previous audit findings.

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Section 1:

Gather Additional Accounts Receivable Information

Texas does not have the comprehensive accounts receivable information it needs to evaluate how well the State is doing in collecting its accounts receivable and to identify where improvements are needed. Additional information would enable state leaders and agency managers to monitor and evaluate how well an agency is doing in collecting its receivables. By improving data collection and analysis, state and agency managers can increase their ability to identify problems, improve performance related to the administration of accounts receivable, and thus potentially enhance revenues through improved cash management and earning of interest.

At August 31, 1994, the State was owed over \$3.5 billion by various outside entities on accounts receivable. (See Appendix 2.) If the State could collect 10-50 percent of these receivables just one day earlier, \$48,000 to \$240,000 in additional interest could be earned.

Accounts receivable are created when the state provides goods or services using its own funds but is not immediately paid for them. The longer receivables remain unpaid the more the state loses the opportunity to earn interest on the outstanding funds. Goods and services provided, which create accounts receivable, include implementation of federal programs, hospital services, park fees, licenses, and permits.

Current Categories and Related Subcategories for Accounts Receivable

- Interest and Dividends Receivable ^{1,2}
- Intergovernmental Receivables ¹
 - Federal Receivables ²
 - Other Intergovernmental Receivables ²
- Other Receivables ¹
 - Accounts Receivable ²
 - Taxes Receivable ²
 - Other Receivables ²

¹ Account category used in statewide comprehensive annual financial report.

² Subcategory used in agency and university annual financial reports.

This report and other recent State Auditor's Office audit reports have identified opportunities where additional interest could be earned by improving specific agencies' billing and collecting of receivables. (See Appendix 3.)

The quality of available information about accounts receivable has been limited due to:

- a state account structure that is insufficiently detailed for analytical purposes
- classification errors in financial reporting at the agency and state levels
- incomplete accounting at the agency level

The account categories used to capture financial reporting information about

accounts receivable are not detailed enough to support analysis of the relationship between different types of receivables and the revenue sources that generate them. For example, 40 percent of the State's accounts receivable, arising from numerous revenue sources, are lumped in the single category "Other Receivables." Conversely, the revenue category "Sales of Goods and Services" has no matching receivable account. The lack of correlation between receivable and revenue accounts makes it difficult to determine if receivables are reasonable in relation to revenue flows.

Errors in the classification of accounts receivable were noted in financial reports at the agency and state levels. At the agency level, one agency incorrectly classified \$5 million as Federal Receivables. Another agency incorrectly classified \$36 million in

Taxes Receivable as Other Receivables. At the state level, it appears that classification errors were made in transferring data from agency financial statements to the statewide financial statements. For example, \$58 million in Federal Receivables, according to one agency's financial statements, was incorrectly classified as Other Receivables. Although these specific classification errors represent only three percent of the State's total accounts receivable, they are indicative of the lack of consistent and accurate reporting of accounts receivable information.

Finally, some of the agencies contacted during the audit indicated that they were unable to provide detailed listings of their receivables, by entity and amount, in support of the balances they reported in their financial statements. This casts doubt on the accuracy of reporting, as well as the quality of accounting controls over receivables.

The lack of reliable information also impedes the development and analysis of accounts receivable performance data. Accounts receivable performance measures could help identify agencies where improvements could be made as well as identify agencies effectively managing their accounts receivable. Turnover and aging analysis are two basic techniques widely used in private industry for many years that would provide useful performance information. However, this analysis is not possible using existing information reported in agency and university annual financial reports.

Recommendation:

We recommend the Comptroller of Public Accounts revise the set of statewide accounts for receivables. The accounts should be structured in a manner that permits one-to-one correspondence between receivables and related major revenue categories identified in the individual agency and university annual financial reports.

Management's Response:

Comptroller of Public Accounts

We agree this data would be useful and has merit. Our office will need to study how this information should be collected to be cost effective and consider the implications to USAS. At the earliest, this information would impact individual agency and university annual financial reports for fiscal 1996. The accomplishment of this change will also be impacted by the prioritization of other issues requiring changes to the financial reporting requirements. This prioritization will occur within the next six months.

Reduce Time and Costs Associated with Collecting Federal Funds

Opportunities exist for the State to further reduce the lag time from incurrence of service costs under federally assisted programs to reimbursement from the Federal Government. Given that federal funds represent over \$15 billion of the State's revenues and \$1.1 billion of its receivables, even small improvements in the collection process can save significant amounts. The various federal and state entities involved have established controls intended to ensure that these funds are paid out for legitimate purposes and that cash transactions are properly managed. However, some inefficiencies have arisen because the process currently in place for receiving and spending federal funds is so decentralized and complex.

By taking a statewide perspective on the federal funds process and by tracking the funds collection process for selected programs through all of the various agencies involved, we identified the following problem areas:

- The State lacks a means for more comprehensively coordinating the federal funds process.
- Multiple layers of agencies are involved in some programs, increasing administrative costs and delaying processing.
- Some requests for reimbursement are not timely or adequately reviewed.
- Prompt payment methods are not used in all instances where they are available.
- Information on the performance of the federal funds collection process is incomplete.

Coordination of Collecting Federal Funds - When viewed from the perspective of the State as a whole, the current process for collecting federal funds has many different parts, not all of which are coordinated with one another. As a result, it can be very difficult to determine, for any particular program, exactly what path the funds take to get to the service provider, how long it takes the funds to get there, and what the total administrative costs are. Until the State knows exactly how long the process takes from beginning to end and what it really costs, it will not know how efficient the federal funds collection process really is.

The state agencies involved in the federal funds process include the following:

- The Office of State-Federal Relations is primarily charged with making sure that Texas applies for and receives its "fair share" of federal revenues.
- The Legislature assigns the responsibility for federal programs to specific agencies through the appropriations process.
- The Comptroller is in charge of establishing reporting requirements for federal funds. The Comptroller is also responsible for calculating the amount of interest owed to/from the Federal Government under the provisions of the Cash Management Improvement Act.
- The State Auditor's Office performs audits to ensure that the funds are spent in compliance with federal regulations and that funds received are properly disbursed.

- Federal funds are received and spent by 102 different state agencies. Many more may be involved as service providers for other agencies.

Timing of Pass-Through Funds - Passing federal funds through more than one agency can create inefficiencies and additional costs. For example, we surveyed several agencies involved in such pass-throughs, and they reported that it took an average of 49.6 days for them to receive approximately \$40 million in federal funds. The pass-through times ranged from 7 days to 300 days. During the 49.6 days of delay, the State could have earned \$272,000 in interest, assuming a five percent rate of interest on \$40 million.

Information is not readily available on the timing of all pass-throughs. However, over one-third (\$5.7 billion) of the total federal funds received by Texas go through more than one agency. Many dollars go through more than two agencies. For example, \$1.5 billion in Medicaid funds goes through the Health and Human Services Commission, which passes them along to the Department of Human Services, which then contracts with the Department of Mental Health and Mental Retardation to provide services. In addition, \$4.8 million in Vocational Education funds goes through the Texas Education Agency and the Texas Higher Education Coordinating Board before going to various state agencies and educational institutions.

Additional savings may be available and may vary from year to year as programs change. In addition to interest costs, multiple pass-throughs require additional reviews and reconciliations, increasing administrative costs. Some of these pass-throughs are required by the federal grantee. For example, the Federal Government requires that only one state agency be initially in charge of the Medicaid funds. Some of these pass-throughs, however, may not be necessary and could be eliminated.

Timeliness of Expenditure Report Filing, Reviewing, and Approval- Although federal regulations establish certain minimum standards for recipients to follow in reviewing expenditure reports filed by subrecipients and service providers, some parts of the review process are still within the control of the recipient. The service provider also has some control over when the review process is initiated since the process cannot begin until the service provider requests funds. When both the recipient and the service provider are state agencies, delays in the approval process can cost the State money, both in terms of lost interest and in terms of lapsed federal funds. We found some examples that indicate that further improvements are possible:

- A large dollar reimbursement was delayed due to a small amount of questioned costs when the questioned costs could have been deducted and the net amount paid promptly.
- A request sent in May had not been reviewed and approved by August.
- Reimbursement requests for one program took an average of 120 days to be processed. The requesting agency and the paying agency each took about 60 days to do their part.
- The Texas Education Agency estimated it will lapse funds of \$3.8 million back to the Federal Government because its records were not timely enough to enable it to reallocate funds from one service provider to another.

More detailed information is needed to determine the full extent of these problems. Any solution should also recognize the fact that at the present time there is no incentive, other than the need to comply with federal regulations, for the recipient agency to more promptly process expenditure reports. Aside from the administrative cost reimbursement received, no benefit is received or penalty incurred by the recipient based on its efficiency or inefficiency in processing expenditure reports.

Prompt Payment Methods - The Federal Government has instituted regulations intended to "minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State." These regulations require the payment of interest by either the state or the Federal Government when these transactions are not completed in a timely manner. Although the large majority of federal funds are subject to these regulations, there are opportunities to save significant amounts in the management of the funds not subject to these regulations.

Based on our survey of 17 agencies, at least \$526 million federal financial assistance is still obtained by the reimbursement method. This means the program spends the funds and then applies for reimbursement. This method is used by most colleges and universities and some non-major programs. These recipients report that it takes an average of 42 days to obtain reimbursement. At a five percent rate of interest, those 42 days cost the State approximately \$3 million, or \$72,000 per day in lost interest.

Federal guidelines indicate that "Advances made to a subrecipient should conform to these standards of timing and amount as if the funding were received directly from a federal agency." However, we found several instances where the secondary recipient was essentially on the reimbursement method even though the Federal Government was paying the primary recipient promptly. These recipients should be encouraged to switch to more timely funding methods.

Timely, Accurate Performance and Financial Data - Data is not readily available on how well the State is doing at making sure it promptly collects federal funds. The annual report issued by the Office of State-Federal Relations "analyzes the state's receipt of federal funds, federal funding trends, state agency efforts regarding the pursuit of federal funds, and recommendations to increase the state's share of federal funds." This report is helpful in determining how well the State goes after federal funds, but it does not determine how good a job it does in collecting these funds on a timely basis. Existing state performance measures do not focus on timeliness of collections or age of receivables. Some data does exist on federal funds that have lapsed. The Office of State-Federal Relations surveyed state agencies about lapsed funds for its fiscal year 1992 report. The Comptroller collects encumbrance information from all state agencies at the end of every fiscal year that could be used to identify lapsed funds; however, no formal report is issued.

Not only is performance data unavailable, but existing financial data on federal receivables is not consistently reliable at the agency level. One of the agencies surveyed was unable to give us either a detailed breakdown or an aging of its large federal receivable balance. Two agencies indicated that the amounts originally shown on their annual financial statements were inaccurate. The "pass-throughs to other state

agencies” section of many federal assistance schedules did not agree with the federal assistance schedule of the receiving agency. Some of these pass-through differences were due to timing, and some were due to whether the agencies categorized themselves and each other as secondary recipients or service providers.

Timely, accurate performance and financial data would allow the State to more accurately calculate the actual delays in obtaining federal funds and identify where they occur. The collection process could then be analyzed and changed to minimize the delays and save the State money.

Recommendation:

We recommend that the Legislature direct a task force of representatives of selected legislative and executive agencies to identify specific solutions to improve the State’s management of federal fund receipts and receivables. Solutions should focus on the following issues:

- analyzing the current federal funding process focusing on how funds are awarded and how funds flow from one agency to another
- standardizing and monitoring the expenditure review process to ensure quality and timeliness
- requiring pass-through agencies to extend prompt payment methods to the recipient agencies wherever feasible
- collecting and analyzing performance data on the timeliness of federal funds collections and using it to make improvements to the process

The State Auditor’s Office plans to continue looking for solutions to help the State more efficiently manage its federal fund receipts and receivables.

Section 3:

Bill, Collect, and Deposit License, Fee, and Permit Revenues in a More Timely Manner

Department of Public Safety Collects Money Up Front

The Department of Public Safety requires retailers to pay for vehicle inspection stickers up front. The vendor gets paid when the inspection is provided. This strategy could be considered for other agencies using third-party vendors of licenses and permits. It saves the State the cost of billing for reimbursement, and the money gets in the bank sooner.

Opportunities exist to improve the timely collection of license, fee, and permit revenue. The State collected \$2.8 billion from license, fee, and permit revenue during fiscal year 1994. This section identifies opportunities to increase revenue at the Texas Department of Transportation (TxDOT) and the Texas Parks and Wildlife Department by more than \$751,000 annually as follows:

Recommendation	Estimated Revenue Enhancement	Report Section
<u>Texas Department of Transportation</u>		
Assess Reasonableness of Revenues	Not Quantifiable	3-A
Enhance Audit Function Over Registration Stickers	Not Quantifiable	3-A
Identify Counties Not Investing in Interest-Bearing Accounts	\$185,000	3-B
Improve Collection Rate for Late Payments	156,000	3-B
Comply with Electronic Funds Transfer Statutes	<u>10,000</u>	3-B
SUBTOTAL	<u>\$351,000</u>	
<u>Texas Parks and Wildlife Department</u>		
Decrease Time to Deposit Hunting and Fishing License Revenue	<u>\$400,000</u>	3-C
TOTAL	<u>\$751,000</u>	

We also evaluated any deposits tested for compliance with the three-day deposit rule. No exceptions were noted during this testing.

Section 3-A: TEXAS DEPARTMENT OF TRANSPORTATION

Enhance Revenues by Improving Controls over Motor Vehicle Registration Fees

Assess Reasonableness of Revenues. TxDOT's information systems and controls with respect to motor vehicle registration fees do not provide for:

- comparisons between registration notices sent and fees collected, or
- tracking the registration history and status of specific vehicles

By comparing the total amounts of vehicle registration notices sent and fees collected, TxDOT could monitor the reasonableness of collections, county by county, and identify areas for further inquiry.

Neither TxDOT's existing system nor its new system now being implemented tracks the renewal or expiration of registrations of specific vehicles. Failure to track individual registrations, together with weaknesses in control over registration stickers (see below), exposes TxDOT to increased risk that fees could be misapplied at the point of collection without detection. By maintaining individual records and producing exception reports of expired registration, TxDOT could not only reduce this risk but also provide useful information to the Department of Public Safety for law enforcement purposes. Stronger enforcement of vehicle registration could, in turn, increase the amount of fees collected by TxDOT.

Enhance Audit Function Over Registration Stickers. Opportunities exist for TxDOT to enhance its audit procedures over the vehicle registration sticker inventory. Although TxDOT's central and regional offices maintain a reasonable count of the *number* of registration stickers during their annual audits, minimal efforts are made to verify the reports of lost, misplaced, stolen, or unaccounted for stickers. Therefore, TxDOT cannot tell whether the more than \$1.9 million worth of stickers that counties reported as missing for fiscal years 1992 and 1993 were actually misplaced through carelessness or whether they were stolen or misused. Since stickers are susceptible to misappropriation, enhanced monitoring and auditing of missing stickers may be prudent.

Recommendation:

We recommend that TxDOT evaluate the reasonableness of vehicle registration revenue. This could include a comparison between the vehicle registration fees billed to vehicle owners and the amounts collected by the counties. Unreasonable revenue collection rates should then be evaluated to determine the cause and the appropriate action to be taken to correct the problem.

We also recommend that TxDOT expand audit procedures over vehicle registration sticker inventory. These procedures should include obtaining explanations for lost, misplaced, stolen, or unaccounted for stickers. Explanations should be obtained from counties reporting the largest number of lost stickers, collecting the largest amounts of revenue, or reporting consistent or increasing losses of stickers. For unreasonable losses, TxDOT should require the county to improve controls over vehicle registration sticker inventory.

Management's Response:

Texas Department of Transportation

The statement that TXDOT's system does not track the renewal or expiration of specific vehicles is based on the assumption that all vehicle owners are required to renew their vehicle registration. However, there are many valid reasons for a vehicle registration not to be renewed over which TXDOT has no control. For example, vehicles which have been wrecked, put in storage, or moved to another jurisdiction.

We will initiate a timely review of the reasonableness of vehicle registration revenue based on actual registration sales data contained in the new automated registration and title system (RTS). Unreasonable revenue collection rates will be evaluated to determine the cause and appropriate action to correct the problem.

TXDOT's new automated registration and title system (RTS) will implement more stringent controls which should improve each county's ability to monitor its sticker inventory. To date, 170 of 254 counties have been implemented with full implementation expected by the end of 1996.

The RTS will identify the specific vehicles and the specific registration items issued to renew vehicle registrations.

For unreasonable losses, TXDOT will continue to work with the counties to improve controls over vehicle registration sticker inventory.

Section 3-B: TEXAS DEPARTMENT OF TRANSPORTATION

Enhance Revenues by Improving Procedures for Collecting Motor Vehicle Registration Fees

Identify Counties Not Investing in Interest-Bearing Accounts TxDOT does not verify whether counties are complying with the statute requiring that deferred vehicle registration payments be invested in interest-bearing accounts. By statute [V.C.S. Art. 6675a-10(d) and Art. 6687-1 Sec. 57(a)], a county may defer payment of the State's portion of vehicle registration fees up to 34 days -- but only if the county deposits the revenues in an interest-bearing or authorized investment account. Otherwise, prompt remittance is due to the State, so that the State can earn interest on the funds. TxDOT does not collect any information to verify that counties claiming deferred payment status are, in fact, investing the funds as required.

It is possible that not every county is investing deferred payments into interest-bearing accounts. The counties most likely to not be investing in interest-bearing accounts are those counties collecting between \$250,000 and \$1 million in vehicle registration fees. These counties collect \$80.4 million, or 12 percent, of the fees. Furthermore, processing time from the date the fee is collected from the vehicle owner to the date it is deposited into the State Treasury averages 18 days. Assuming that this non-interest-earning revenue was transferred to an account earning five percent

interest, either the counties or the State could earn up to \$185,000 in additional interest revenue.

Improve Collection Rate for Late Payments. TxDOT does not adequately identify counties that forward vehicle registration fees after the allotted 34 days. In the meantime, the State is losing interest. Identifying these late payments and depositing them in a timely manner could potentially enhance revenue by more than \$156,000 annually.

Agency management has stated that implementation of such procedures would be difficult and costly given TxDOT's highly manual processing system. A new automated system for collecting information about vehicle registrations is currently being implemented. However, as the new system is currently configured, it will not collect information nor calculate interest lost due to late payments.

Comply with Electronic Funds Transfer Statutes. TxDOT does not fully comply with the State's electronic funds transfer (EFT) statute. This statute requires any payor who submits annual revenues of \$500,000 or more to remit individual payments of \$25,000 or more by electronic funds transfer.

Although most counties are in compliance with this statute, TxDOT has identified 11 counties that were not. If these 11 counties alone deposited funds an average of five days earlier, an estimated \$10,000 in additional interest would be earned annually, assuming an interest rate of five percent. Furthermore, minimal resources would be needed to establish this link, and the benefits would be realized for all succeeding years.

The EFT statute also allows TxDOT to lower the \$500,000 limit to \$250,000. If TxDOT were to lower the limit, an additional 21 counties would be required to use electronic funds transfer methods.

Recommendations:

We recommend that TxDOT:

- Develop policies and procedures to identify counties not depositing vehicle registration fees in interest-bearing accounts and require them to do so.
- Develop policies and procedures to identify counties not paying on time and assess appropriate interest.
- Require certain counties to pay by electronic funds transfer in compliance with state statute and evaluate the benefits of lowering the limit for requiring electronic funds transfer methods to payments of \$250,000 or more.

Management's Responses:

All counties are aware that their accounts are required to be interest-bearing if they defer payment. Counties will be notified in writing that this is law and they are required to be in compliance.

The new automated registration and titling system's (RTS) reporting requirements already address the situation of late reporting of registration receipts. Additionally, programming will occur to identify those counties not remitting prior to the 60 day statutory requirements and to calculate penalties involved. These enhancements will occur after state-wide implementation of the RTS is complete, slated for December 1996. In the interim, we will continue to monitor the late reporting and remitting by counties using the existing process. We will assess penalties when required.

TXDOT will notify the 11 counties that have refused EFT to comply. However, we have no way to enforce compliance. TXDOT will invite all remaining non-EFT counties to use this program. After this invitation we will review our acceptance rate and then make a determination on whether we should lower the limit.

Section 3-C: TEXAS PARKS AND WILDLIFE DEPARTMENT

Decrease Time to Deposit Hunting and Fishing License Revenue

The Texas Parks and Wildlife Department (Department) is not able to promptly collect and deposit the more than \$50 million it receives annually from hunting and fishing licenses. Most of the license fees are collected through many different parties, including retail stores and other vendors. A recent report by the State Auditor's Office (SAO Report No. 96-013) indicates that receipts take, on average, about 60 days to be collected and deposited. If the time lag between collection by the retailers and deposit into the State Treasury could be decreased to one week, more than \$400,000 in additional interest could be earned.

The Department's current collection and depositing system is manual. License vendors must write by hand information on each license they sell. They are also required to fill out and send in a form detailing monthly license sales to the Department. The Department then audits this information, and an invoice is prepared and sent to the vendor. The invoice is payable upon receipt. Overdue notices are prepared for invoices that vendors have not paid after 45 days.

The Department has recognized the problems associated with the current system and plans to implement an automated point-of-sale issuance system. System testing began at 13 pilot sites in November 1995, and installation at more than 3,000 license vendor locations is planned by early summer 1996. This system should be quicker and easier for all involved parties to use and should provide increased capabilities to improve the timeliness of deposits. The State Auditor's report recommends that the new system's policies and procedures be designed to ensure that the collected funds are deposited in a timely manner. (Please see SAO Report No. 96-013 for the Department's response.)

Section 4:

Continue to Improve Collection of Patient Revenue at Medical Components

Accounts receivable for the State's medical components amounted to over \$322 million, or 9.2 percent of all accounts receivable for the State. These receivables are due from patients, insurance companies, and federal programs such as Medicare and Medicaid. The collection of these receivables is a very complex process because of the number of different services that can be provided, the number of persons providing services, and the restrictions and requirements established by the different payors.

We reviewed the charge capture, billing, collection, and depositing strategies at The University of Texas M.D. Anderson Cancer Center (M.D. Anderson) and The University of Texas Medical Branch at Galveston (UTMB). We commend these two institutions for their recent and continuing efforts to improve their revenue collection processes. However, further improvements are still needed in the areas of charge capture and collections.

Section 4-A:

Improve Controls over Charge Capture and Billing

Although improvements have been made and continue to be made, both M.D. Anderson and UTMB can improve controls over the charge capture and billing processes. In addition, improvements could be made in how quickly charges are sent to the billing department.

Some of the strategies currently being used by M.D. Anderson and UTMB to improve charge capture are as follows:

- randomly selecting some patient records and matching the services provided on the medical record to the services billed
- assigning responsibility for capturing charges for a particular area, such as radiology, to a specific employee
- cross-checking the appointments made for services to the services billed
- creating bar code stickers for all patients and requiring the bar codes to be provided before the services can be rendered
- adjusting expenditure budgets according to the number of services provided, creating an incentive for correctly recording charges
- tracking the time from date of service to the billing date by division and by doctor to determine where the delays are occurring

Although each of these strategies reduces the risk of omissions, controls still are not comprehensive enough, in the aggregate, to ensure optimum capture of eligible charges.

Recommendations:

A more comprehensive approach should be developed to:

- Identify all the strategies currently in place to improve charge capture.
- Identify the service areas that are currently covered by these strategies.
- Determine which service areas are not being covered and institute appropriate strategies.
- Periodically evaluate how well the strategies are doing in improving charge capture and make any necessary adjustments.

Management's Responses:

The University of Texas M.D. Anderson Cancer Center

Physicians Referral Service Response

Physicians Referral Service (PRS) agrees with this recommendation. For professional fee charge capture, the following is in place:

- **Inpatient Daily Care Charges** All discharged patients are reconciled to the IDX system to ensure daily care charges were recorded. Variances are noted, physicians are contacted, and charge variances are resolved.
- **Outpatient Clinic Visit Charges** Daily, all clinic professional fees are batched together, summarized by the clinic, reconciled to the clinic schedule and submitted to PRS. A reconciliation review is performed by PRS, and all outstanding charges are logged, reported, and resolved.
- **Surgery Cases** Daily, all surgery charges are reconciled to the surgery peri-operative reports to ensure control of all services being recorded. All variances are reported, tracked, and resolved.
- **There are charge interface systems in place with Diagnostic Imaging, Laboratory Medicine, and Pathology which ensure automated professional fees.**

PRS will continue to further define its strategies for charge capture and billing, and strive to ensure that all services performed are adequately documented and are accurately and timely billed.

Hospital and Clinics Response

While we agree with the concept behind the recommendations in this section, it should be noted that fewer patients are having their bills reimbursed based on charges. The fastest growing segment of our patient population is managed care. This is primarily conversion from commercial insurance and Medicare and Medicaid. For those patients for whom we are reimbursed based on charges, this is a valid recommendation. There is a program underway in Hospital and Clinics for nurse auditing of selected patient bills. These nurses have the skills to compare hospital charges to the medical records to ensure that the bills are accurate. In general, there is a greater tendency toward undercharging on hospital bills than overcharging. We are also moving toward an on-line charge capture system that will be tied to the medical record data so that the manual process, and resulting delays, will be minimized. This system will be implemented over the next five years.

We are moving to a concept of flexible budgeting whereby managers will be held accountable for their budgets based on current activity levels as opposed to a fixed budget. We are also tracking delays and dealing with issues as they occur.

The University of Texas Medical Branch at Galveston

Management agrees that comprehensive controls should be in place to ensure optimum charge capture. UTMB previously implemented several new controls in the last few years which have significantly enhanced charge capture. Additionally, UTMB is implementing an order entry/results reporting system which will immediately create a patient charge upon the order/results of certain ancillary procedures. UTMB is also reviewing departments where the charge capture process is not automated, and will introduce automated charge capture technology, where practicable, to ensure charge capture accuracy and timeliness. UTMB will monitor the impact of these two initiatives on charge capture, and will continue to evaluate new strategies to ensure optimum charge capture.

Section 4-B:

Continue to Monitor and Evaluate the Productivity of Collection Staff and Outside Collection Agencies

Opportunities exist for UTMB to fine tune the monitoring and evaluation of internal collection staff and outside collection agencies. While the institution has made significant improvements to its patient receivable collection strategies, additional monitoring and enhancement may achieve better results. As of August 31, 1994, the patient receivable balance was \$57 million.

Additional detailed performance monitoring could be used. UTMB stratifies its accounts by dollar amounts and payor groups and documents and analyzes the cost to collect accounts. Furthermore, UTMB compares its overall collection costs and effectiveness to industry norms. However, information on the performance of individual collection personnel would allow management to identify additional

improvements. For example, the number of calls or letters prepared by each employee could be monitored daily.

Additional collection strategies could be implemented. After a reasonable effort is made internally to collect the accounts, remaining accounts are sent to an outside collection agency. UTMB uses two collection agencies who charge a percentage of the amount collected and take whatever actions they deem necessary. UTMB should enhance the monitoring of outside collection agency performance and refine collection strategies accordingly.

UTMB has policies which specify when patient accounts are to be sent to an outside collection agency. These collection agencies provide UTMB with summary reports on how much was collected. UTMB uses this information to calculate the overall cost to collect and to identify accounts that may not have been adequately worked prior to referral. However, UTMB does not calculate how long, on average, it takes from the time an account is referred to the collection agency to the time the account is collected. This analysis would give UTMB additional information about the collection agency's ability to promptly collect accounts.

Procedures which would allow UTMB to better monitor and evaluate its various collection strategies include the following:

- Analyze tasks undertaken by internal collection personnel and the results of those tasks.
- Periodically monitor, evaluate, and update collection agency strategies.
- Evaluate how long, on average, it takes from the time an account is referred to a collection agency to the time the account is collected.
- Analyze the effectiveness of each collection strategy in terms of percentage of dollars collected and number of days to collect and adjust the strategies used accordingly.

Recommendation:

We recommend UTMB implement additional procedures for monitoring and evaluating the performance of collection staff and outside collection agencies and revise its policies based on evaluation of results.

Management's Response:

Management agrees that the productivity of collection staff and performance of outside collection agencies should be continuously monitored and evaluated. Currently, UTMB is installing SMS Collector Workstation, a software application which will enable UTMB to establish and monitor collector specific productivity using multiple productivity indicators. The next release of the SMS system will also enable UTMB to measure the time it takes collection agencies to collect on accounts. This information will be factored into UTMB's assessment of outside agency performance. On a monthly basis, UTMB monitors the effectiveness of outside collection agencies by

comparing recovery rates between agencies, to industry norms and to historical averages. UTMB will continue to monitor these indicators as new collection strategies are implemented.

Section 4-C:

Share Successful Innovations Throughout the Organization and with Other Medical Components

Several successful billing and collection strategies have been implemented at M.D. Anderson and UTMB. These strategies include:

- identifying potential federal funding programs through the use of a patient screening system
- collecting on delinquent accounts using a predictive dialing system
- collecting accounts using electronic billing and collection technology
- focusing on the collection of large receivables first
- automating the system used to obtain correct information while admitting patients

However, these strategies could be more successful if they were routinely shared both within individual medical components and with other medical components.

For example, at M.D. Anderson and UTMB, billing and collection for physician and hospital charges are separate. Consequently, improved collection techniques are not always shared between the two. While physician and hospital charges are required to be billed on different forms, and there is currently no software system that can do both kinds of billing, it is possible to combine some of the remaining billing and collection activities. For example, collection of delinquent accounts from the same patient, for the same visit, could be handled by a single group. Currently, the physician charges are collected by the physician group, and the hospital charges by the hospital group.

Information about successful hardware and software could be actively shared between medical components. M.D. Anderson and UTMB both successfully implemented an automated billing system. However, each component determined the need for the system mostly independently. Furthermore, both components contracted for them separately. Joint negotiations may allow The University of Texas System to get a better price and/or allow some of the smaller medical components to upgrade as part of a larger contract.

Coordination at the statewide level may also be needed to resolve some situations. UTMB recently received an interest check from an insurance provider in Virginia. Virginia requires insurers to pay claims within 15 days or pay interest. Texas also has a statute requiring insurers to pay claims, but within 60 days. However, to our knowledge, this statute has not been enforced and may be difficult to enforce without a coordinated effort by all state providers.

Recommendation:

We recommend that The University of Texas System further enhance communication between medical components by utilizing existing forums to:

- Identify some of the successful strategies that have been implemented by the various medical components and share them.
- Identify opportunities for coordinated action on software, hardware, and other upgrades.
- Consider contacting the Attorney General's Office about enforcement of the statute requiring insurance companies to make timely payments or pay interest.

Management's Response:

The University of Texas System Administration continually seeks to provide opportunities and forums for its fifteen component institutions to exchange ideas and strategies to enhance the efficiency and effectiveness of their operations, through coordinated efforts, where appropriate. Due to the dramatically changing national health care environment, The U.T. System's health care institutions have been, and continue to be, proactive in initiating major reorganization and re-engineering efforts to improve efficiency without lowering quality.

A partial list of the recurring forums/opportunities for the sharing of ideas includes:

- *Bi-monthly meetings of all institutional chief business officers with the Executive Vice Chancellor for Business Affairs and other U.T. System Administration personnel.*
- *Periodic meetings of the health care institutions' chief business officers with the Executive Vice Chancellor for Business Affairs.*
- *Semi-annual campus visits to each health institution by the Executive Vice Chancellor for Health Affairs and his staff.*
- *Quarterly meetings of the health care institutions' presidents and chief business officers with U.T. System Administration executives and staff.*

Examples of joint projects/strategies by the institutions include:

- *1994 Cost Savings & Revenue Enhancement Project: via on-site meetings and video conferences, an electronic "bulletin board," and institutional committees, all institutions shared cost savings and revenue enhancement ideas and strategies for an estimated reported net savings of \$455.7 million to be achieved from May, 1992 through August, 1998.*
- *UTMB video presentation of their re-engineered grant processing area shown at a bi-monthly meeting of the chief business officers.*
- *Joint Ad-Hoc Committee for Review of Internal Controls: System-wide committee to share ideas and strategies for enhancing internal controls.*
- *Joint health institutions' committees: Consolidated Annual Cost Reporting and Medical Services Research & Development Plan Reporting - these committees share cost and revenue data, develop consistent reporting methodologies, and exchange ideas to increase the efficiency and effectiveness of their operations.*

In addition, The U.T. System has various system-wide software contracts and makes great effort to take advantage of the cost savings and efficiency opportunities that come by enhancing information technology throughout The U.T. System.

U.T. System Administration will continue to enhance communication and promote opportunities for the sharing of ideas and strategies among its component institutions.

Issue for Further Study

One other issue was identified during the course of our audit. Additional study and analysis is necessary to identify specific opportunities for improvement. This issue will be considered for a future audit.

Centralized Collection Functions

At least four other states have developed and implemented centralized collection functions. These functions range from a centralized state-run department to contracting with a private company to design, develop, implement, and manage the collection of all the debts owed to the state, including student loans, taxes, and permits. This may be an option Texas could consider in the future. However, improved information about the current status of receivable balances will be necessary in order to consider the feasibility of a centralized collection function.

Some of the benefits of a centralized collection function in Texas may include:

- Coordination and centralization of collection efforts, thus allowing agencies to focus on pursuing their primary mission and program objectives. Furthermore, some agencies may not be equipped to devote the necessary resources to collect debts.
- Higher collection rate and, thus, higher revenues.
- Greater customer service since the customer can receive one bill for most, if not all, debts owed to the State.
- Economies of scale. Sending multiple bills and making multiple phone calls could be reduced to one bill with multiple debts and one phone call.
- No cost to taxpayers if cost of collection is transferred to debtor. Currently, the taxpayers are incurring costs associated with debt collection.

Potential disadvantages of a centralized collection function include:

- Initial costs to establish an automated information system to centrally collect data from each participating agency.
- Some agency personnel may be reassigned or laid off.
- May take legislative approval to implement centralized collection function.

Additional analysis would be necessary to determine whether Texas could benefit from some form of a centralized collection function. The following states have developed or are in the process of developing a centralized collection function for certain debts owed to the state:

Michigan

Many accounts receivable in Michigan are collected by the Michigan Automated Collection System (MACS). This for-profit entity handles receivables for various agencies. Specifically, MACS collects bankruptcy claims and tax debts. Some of the

other remaining debt is still collected by the Collection Division within the Michigan Department of Treasury. According to Michigan's fiscal year 1994 comprehensive annual financial report, the state had accounts receivable of \$3.5 billion and revenues of \$25.3 billion.

Minnesota

The Minnesota Collection Enterprise (MCE) is a state-run centralized collection entity formed in 1994. The debts collected by MCE include low dollar income tax debts, child support payments, student loans, OSHA fines, and other debts for 13 agencies. The state is currently adding a pilot program to collect speeding and parking tickets. The scope of MCE will be determined in July 1997 when the results of a study evaluating the cost effectiveness of a centralized state-run collection function versus private company collection of debts will be released. Funding is provided by a collection penalty paid by the debtor. At the end of fiscal year 1994, the state's accounts receivable were about \$1.1 billion.

New Jersey

New Jersey is developing a plan for implementing a centralized collections operation and improving agencies' receivables management. The implementation plan is currently awaiting final approval. According to New Jersey's fiscal year 1994 comprehensive annual financial report, the state had accounts receivable of \$5.5 billion and revenues of \$24.6 billion. The method of financing for a centralized collection function will be determined as part of the implementation plan.

Virginia

The Court Debts Collections Office is run by the Commonwealth of Virginia and was established in January 1995. The office collects court debts for 158 of the 366 courts in Virginia. The remaining courts have the option of using a private collection agency. Financing is provided through a percentage of collections and special fund appropriations. After June 1996, the legislature will determine the success of the program and whether to move towards adding other debt types.

Objective, Scope, And Methodology

Objective

Our audit objective was to identify ways to increase revenues by improving accounts receivable collection and cash receipting processes. In addition, we evaluated any deposits tested for compliance with the three-day deposit rule.

Scope

The scope of this audit included a broad overview of the statewide management of accounts receivable as well as a limited review of the management of specific receivables at specific agencies. At each level of review, we identified current policies and procedures and other controls used to ensure that receivables are accurately recorded and promptly collected and deposited.

The specific receivables and entities chosen were selected on the basis of risk. Risk factors considered include materiality, volume and complexity of the transactions, trends, and previous audit findings.

Based on the risk assessment, the audit evaluation focused on answering the following questions:

- Is current statewide accounts receivable data reliable? Is it collected and used in a way that improves the management of accounts receivable?
- Are license, fee, and permit revenues collected and deposited in a timely and cost effective manner?
- Are accounts receivable at medical components being collected in a timely manner?
- Are intergovernmental receivables being collected in a timely manner?
- Are receipts from sales of goods and services being collected in a timely manner?
- Are federal revenues being collected in a timely manner? Are federal receivables accurately reflected on the financial statements?

This audit was not intended to identify all potential improvements in the accounts receivable and cash receipting processes. However, it was intended to begin the process of identifying common opportunities for enhancing revenues in the billing and collection of accounts receivable.

We visited two agencies and two health science centers, relied on other State Auditor's Office reports, and conducted an informational survey of agencies and universities with large federal receivable balances.

Methodology

The methodology used on this audit included collecting information, performing audit tests and procedures, analyzing the information, and evaluating the results.

Information collected to accomplish our objectives included the following:

- Interviews with management and staff of agencies and medical components
- Interviews with employees of the Legislative Budget Board, Comptroller of Public Accounts, State Treasurer, and the federal Department of Health and Human Services
- Documentary evidence such as:
 - Selected state statutes and regulations
 - Various management reports
 - State Auditor's Office reports
 - Internal audit reports
 - Publications of the Office of the Comptroller of Public Accounts, such as the Comprehensive Annual Financial Report and the Annual Cash Report
 - Reports of the Office of State-Federal Relations

Procedures, tests, and analysis included the following:

- Compared available financial information to needed financial information
- Assessed risk associated with different categories of receivables and revenue
- Performed trend analyses
- Projected additional revenues using the time value of money and an imputed interest rate
- Reviewed policies and procedures for the billing and collection of accounts receivable and revenues
- Surveyed agencies and universities to determine timing of federal revenue reimbursement

Criteria used included the following:

- State statutes, including the three-day deposit rule and rapid deposit statutes
- Comptroller's Reporting Requirements
- Federal Regulations, OMB Circular A-128
- State Auditor's Office Methodology Manual

Other Information

Fieldwork was conducted from May 1995 through September 1995. The audit was conducted in accordance with professional standards, including generally accepted government auditing standards and generally accepted auditing standards. There were no significant instances of noncompliance with these standards. We did not verify the accuracy of the data provided by any of the entities completing a federal receivables survey.

The audit work was performed by the following members of the State Auditor's staff:

- Mark E. Dan, CPA (Project Manager)
- Frank Guerrero, CPA
- K. Ashaer Hamid, MBA
- Christina D. Hurr, CPA
- Linda C. Lansdowne, CPA
- Lisa A. Walters, MPA
- Catherine A. Smock, CPA (Audit Manager)
- Deborah L. Kerr, Ph.D. (Audit Director)

Accounts Receivable Balances by Entity and Account

Accounts receivable for the State at August 31, 1994, were \$3.5 billion. The tables below list the agencies and universities which have the largest receivable amounts. The first table lists the total combined receivables for the State. The remaining tables list the entities with the largest balances of different types of receivables.

Total Combined Accounts Receivable

The University of Texas System - Consolidated	\$524,704,963
Teacher Retirement System	505,278,729
Department of Human Services	350,038,639
Texas Education Agency	288,245,711
Texas Department of Transportation	242,700,462
Health and Human Services Commission	238,253,324
Employees Retirement System	176,856,293
Comptroller - State Fiscal	171,295,205
Texas Department of Health	138,835,537
Texas A&M University System - Consolidated	90,241,707
Texas Workers' Compensation Insurance Fund	82,994,133
Texas Natural Resource Conservation Commission	71,361,259
Texas Higher Education Coordinating Board	68,737,798
Texas Employment Commission	67,686,987
Treasury Department	61,931,498
Remaining Entities	425,489,312
Total	\$3,504,651,55
	7

Sub-Account: Other Accounts Receivable

The University of Texas System - Consolidated	\$445,975,923
Comptroller - State Fiscal	171,295,205
Teacher Retirement System	171,013,938
Texas Education Agency	106,269,749
Employees Retirement System	86,267,306
Texas A&M University System - Consolidated	58,015,801
Texas Natural Resource Conservation Commission	53,733,134
Texas Employment Commission	50,357,585
Treasury Department	37,784,959
Texas Department of Mental Health and Mental Retardation	29,622,576
Remaining Entities	195,307,479
Total	\$1,405,643,65
	5

Sub-Account: Interest and Dividends Receivable

Teacher Retirement System	\$334,264,791
Texas Education Agency	117,578,421
Employees Retirement System	90,588,987
The University of Texas System - Consolidated	77,709,898
Texas Workers' Compensation Insurance Fund	63,679,512
Texas Higher Education Coordinating Board	62,922,108
Remaining Entities	114,209,327
Total	\$860,953,044

Sub-Account: Other Intergovernmental Accounts Receivable

Texas Department of Transportation	\$72,259,968
Texas Department of Commerce	24,280,040
Texas Department of Housing and Community Affairs	9,740,342
Texas Natural Resource Conservation Commission	1,185,040
Remaining Entities	474,343
Total	\$107,939,733

Sub-Account: Federal Receivables

Department of Human Services	\$350,038,639
Health and Human Services Commission	238,253,324
Texas Department of Transportation	162,141,222
Texas Department of Health	135,657,564
Texas Education Agency	64,397,541
Texas Guaranteed Student Loan Corporation	37,124,259
Texas A&M University System - Consolidated	25,577,786
Texas Department of Housing and Community Affairs	16,780,935
Texas Natural Resource Conservation Commission	16,237,059
Texas Rehabilitation Commission	15,371,313
Remaining Entities	68,535,483
Total	\$1,130,115,12
	5

Source: *Texas' '94 Comprehensive Annual Financial Report* and individual agency and university annual financial reports.

Appendix 3:

Related Reports Identifying Improvements Needed in Billing and Collecting of Receivables and Revenues

The following table lists some of the findings from reports issued in the last few years relating to the management of accounts receivable and cash receipts processes.

Agency or Institution Audited	Audit Agency	Report No. or Date	Description of Finding
Alcoholic Beverage Commission	LBB	1/93	Excessive and overlapping permit/license structure
Alcoholic Beverage Commission	LBB	1/93	Fees do not cover costs to regulate
Attorney General	SAO	93-008	Cases not worked within specified time frame
Attorney General	SAO	93-008	Not maximizing available funding
Comptroller	SAO	95-030	Receivables from hearings are not correctly stated
Comptroller	SAO	95-030	Payments should first be applied to interest, not principle
Comptroller	SAO	95-030	No controls over receivables from other state agencies
Comptroller	SAO	93-015	No controls to ensure other state agencies collect and report taxes
Comptroller	SAO	93-015	Field office collections are not deposited locally but are express mailed to headquarters
Comptroller	SAO	93-015	No interest is charged on late tax payments if penalty is waived
Department of Commerce	LBB	1/93	Failure to assess impact of loan program
Department on Aging	LBB	1/93	Fees do not cover cost of regulation and quality assurance functions
Department of Public Safety	SAO	91-148	All collections, including cash, deposited three days after receipt
Department of Information Resources	SAO	95-048	Problems collecting accounts receivable
Department of Transportation	IA	504-1	Assessed civil penalties not recorded
Dept. of Mental Health and Mental Retardation	IA	9403	Two of ten facilities had instances of untimely deposits
Dept. of Mental Health and Mental Retardation	LBB	1/93	Failure to bill Medicaid for reimbursable costs
Employees Retirement System	SAO	94-108	Did not collect \$21 million in insurance revenue; lost an estimated \$453,000 in interest
Employees Retirement System	SAO	94-108	Insurance revenue and accounts receivable understated by \$16.4 million in annual financial report
General Land Office	IA	94-3	Billing for services takes approximately five months
Health and Human Services Commission	IA	FY 94	Deposits not being made in a timely manner
Housing and Community Affairs	IA	0593-11	Delinquent payments not identified or requested from local governments
Housing and Community Affairs	IA	0593-11	Approximately \$4.48 million in interest receivable not identified or recorded in accounting records

Agency or Institution Audited	Audit Agency	Report No. or Date	Description of Finding
Office of Administrative Hearings	LBB	1/93	Reasonableness of billing calculations questioned
Teacher Retirement System	IA	93-103	Real estate investment system not updated; calculated incorrect interest income
Texas Tech University	IA	10-25-93	Housing and dining revenue earned by the department for operating athletic dining hall not billed timely
Texas Tech University	IA	10-25-93	Bad debt expenditures and current years revenues understated by \$95,027
Texas Natural Resource Conservation Commission	IA	FA 94-12	Federal grant overtime in excess of \$435,000 not billed due to lack of tracking, monitoring, and billing
Texas Natural Resource Conservation Commission	SAO	94-077	Delays in request for reimbursement of \$24 million of total \$33 million in federal expenditures cost the State \$130,000 in interest
Treasury	SAO	95-018	Approximately \$48,000 lost by inappropriate assessments
University of Houston	IA	94-03	No accountability or control over cash receipts from ticket sales to students
UT M.D. Anderson	IA	92-32	Patient and physicians receivables using separate collection agencies to collect on same patients
UT Southwestern Medical Center	IA	93-11	Pathology department not billing promptly
UT Southwestern Medical Center	IA	92-09	Patient payments not deposited promptly; held to match to invoice
UT - Austin	IA	93-13	Income not deposited in a timely manner
UTHSC - San Antonio	IA	93-29	Several weaknesses in collecting and writing-off old receivables
UTHSC - San Antonio	IA	94-13	No follow-up on delinquent accounts
UTHSC - San Antonio	IA	93-05	Cash receipts not deposited in a timely manner
UTHSC - San Antonio	IA	93-29	Deposits not made within the established policy
UTHSC - San Antonio	IA	93-16	Payments from students for lost supplies and equipment not being deposited in a timely manner
UTHSC - Houston	IA	93-006	Proceeds from sale of surplus property are not verified
UTHSC - Houston	IA	93-013	Patients not billed promptly or not at all
UTMB - Galveston	SAO	93-084	Counties not reimbursing UTMB for indigent care patients

HSC = Health Science Center

IA = Internal Audit Department

LBB = Legislative Budget Board

SAO = State Auditor's Office

Glossary

Accounting system - The set of methods and records established to identify, assemble, analyze, classify, record, and report any entity's transactions. The system is created to safeguard and maintain accountability for the entity's assets and liabilities.

Accounts receivable aging analysis - A review of amounts and percentage of outstanding accounts receivable falling into each of several defined billing periods. This analysis should be done at least monthly and contain amounts and percentages in each aging category for the current month, the corresponding month of the preceding year, and the moving monthly average for the preceding year.

Accounts receivable days sales outstanding ratio - A computation that converts the turnover ratio into days. For example, a turnover ratio of 8 would convert to approximately 45 days ($360/8$) outstanding.

Accounts receivable turnover ratio - Computed by dividing total related revenues earned by average outstanding receivables for the period. Generally, the higher this turnover, the better the entity is at collecting its debts promptly.

Bad debt ratio - Divides the bad debt expense (forgiven delinquencies) for a period by accounts receivable for the same period. This ratio measures how much of the receivables balance is actually collected.

Cash management - Seeks to control cash availability and maximize investment yield on idle cash. It begins when funds are received and ends when expenditures are paid.

Cash Management Improvement Act of 1990 (CMIA) - Governs the transfer of funds between federal agencies and states for federal grants and other programs. CMIA requires the timely transfer of funds between a federal agency and a state and the payment of interest where transfers are not made in a timely fashion. CMIA applies to major federal programs only.

Collection float - The time elapsed between physical receipt of funds and availability of funds to the entity at its depository. Texas' three-day deposit rule attempts to minimize collection float.

Disbursement float - The time between a payment transaction and the actual receipt and/or disbursement of funds at the depository. A cash transaction has zero float because the payment can be immediately used. All other payments must usually go through three stages of float: mailing, processing, and clearance.

Primary recipient - The state entity receiving federal program funds directly from the Federal Government.

Secondary recipient - A state entity that receives federal program funds through the state's primary recipient rather than directly from the Federal Government.

Write-off - Refers to the release of obligation of payment for debt and its removal from the receivables ledger. The forgiveness of debt may be total or partial. The process of approving and authorizing write-off should be a documented, objective process under strict controls which prevent arbitrary decisions by employees and management. Note, however, that Article 3, § 55, of the Texas Constitution has been interpreted to mean that agencies cannot write off bad debts in most cases, although uncollectible amounts should be removed from the financial records and kept on a separate list.

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