November 29, 1999

Members of the Legislative Audit Committee:

The four agencies we reviewed (see table below) do a good job of collecting revenue designated for and necessary to provide government services. Revenue collections are well controlled, and the agencies actively work to improve processes and maximize collections.

From a statewide perspective, our initial review of risk associated with the State’s revenue found that many high-risk revenues, especially the largest revenue streams, have been recently or are regularly reviewed. These reviews, which help ensure sound processes, are conducted by the agencies or by external entities like the State Auditor’s Office. However, we originally identified approximately $1 billion in revenue that had not had recent oversight.

Of this $1 billion in revenue, we reviewed processes and controls over more than $400 million of the highest risk revenue. Our review found good internal processes to collect and deposit revenues as well as to monitor, evaluate, and improve revenue collection systems. While there are opportunities to improve, they are generally small in impact. (A summary of each agency’s results is attached.) We made recommendations to some of the agencies that we visited. Their responses indicate that they agreed with our recommendations.

Of particular note, management at the Natural Resource Conservation Commission has shown its clear support of educating, training, and updating staff on revenue processing. The model for the Commission’s Revenue Management Handbook is based on a best-practices revenue management model that is both complete and realistic.

We appreciate the cooperation of the agencies we contacted and reviewed. Please contact Pat Keith, Audit Manager, at 479-4700 if you have any questions about this report.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Executive Directors, Governing Board Members, and Internal Audit Directors of the agencies reviewed

<table>
<thead>
<tr>
<th>Agencies and Collected Revenue Reviewed</th>
<th>(Fiscal Year 1998 Revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Public Safety</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>Reviewed</td>
</tr>
<tr>
<td>$268 million</td>
<td>$196 million</td>
</tr>
<tr>
<td>Natural Resource Conservation Commission</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>Reviewed</td>
</tr>
<tr>
<td>$395 million</td>
<td>$116 million</td>
</tr>
<tr>
<td>Department of Mental Health and Mental Retardation</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>Reviewed</td>
</tr>
<tr>
<td>$105 million</td>
<td>$54 million</td>
</tr>
<tr>
<td>Department of Criminal Justice</td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>Reviewed</td>
</tr>
<tr>
<td>$166 million</td>
<td>$46 million</td>
</tr>
</tbody>
</table>

SAO Report No. 00-005
Overall Conclusion

The four agencies we reviewed do a good job of collecting revenue designated for and necessary to provide government services. Revenue collections are well controlled, and the agencies actively work to improve processes and maximize collections.

A summary of the results of our work and each agency’s fiscal year 1998 collected revenues follows.

Department of Public Safety

The Department of Public Safety’s (Department) revenue collection processes are generally well designed. There are some opportunities to streamline processes to help the Department comply with the three-day deposit statute including:

- Using a lock box for some revenue types
- Consolidating the review of revenue forms to reduce the number of steps in the process
- Offering drivers record services at other locations across the state to improve customer service and reduce Central Cash Receiving’s workload

Controls over revenue collection and processing could be improved by:

- Documenting policies and procedures for key areas
- Restrictively endorsing checks upon receipt
- Pre-numbering cash deposit and direct return requests
- Restricting accounting system access to employees with reconciliation responsibilities

We also provided advisory services by providing the agency with our flowcharts and narratives documenting its procedures to serve as a basis for its own comprehensive revenue procedure manual.
Natural Resource Conservation Commission

The Natural Resource Conservation Commission’s (Commission) approach to revenue management demonstrates a commitment to ensuring that it fulfills its revenue collecting responsibilities.

- The model for the Commission’s Revenue Management Handbook (Handbook) is based on a best-practice revenue management model that is both complete and realistic.

- The Handbook addresses the revenue cycle from the identification and education of fee-payers through the collection of delinquent accounts.

Opportunities for strengthening the current processes and systems include:

- Expanding the use of the lock-box system by adding additional program fees

- Placing a greater emphasis on resolving undeliverable statements sent to Petroleum Storage Tank Division clients and implementing a tracking system to document efforts

- Implementing the procedures for monitoring the Hazardous Waste Management Program reports and increasing the coordination between the Program Fee Coordinators and the Revenue Fee Coordinator

- Designing and implementing an archival function within the accounts receivable system to improve the system’s performance and to prevent the needless generation and processing of some correspondence

Department of Mental Health and Mental Retardation

The Department of Mental Health and Mental Retardation actively works to ensure that it collects the revenues due to it. A multi-tiered monitoring and review process helps to ensure that expectations are met and opportunities for improvement are identified.

- Total Revenue: $105 million
  - Amount Reviewed: $54 million
The Department of Criminal Justice’s revenue processing functions are operating effectively. We found that:

- Revenue processes are well designed.
- Revenues were processed and deposited in a timely manner.
- Reporting processes have been established that enable management to review collection data and make organizational decisions.

Through monitoring and internal audits the Department has identified ways to improve processes and collections.

<table>
<thead>
<tr>
<th>Total Revenue</th>
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<tr>
<td>Amount Reviewed</td>
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</table>
Objective, Scope, and Methodology

The objective of the audit was to determine if selected high-risk revenues have appropriate procedures in place to ensure that those revenues are maximized.

The scope of this audit was selected revenue streams identified in our risk assessment as high risk. It included revenues at the Department of Public Safety, the Department of Mental Health and Mental Retardation, the Department of Criminal Justice, and the Natural Resource Conservation Commission. We reviewed revenue processes in place during our fieldwork from May to September 1999.

The methodology used on the audit was based on a revenue management model developed by the State Auditor’s Office. We examined:

- How taxpayers/fee payers are identified
- How taxpayers/fee payers are notified and educated of their responsibility to pay
- How payments are deposited
- How payments are posted
- The oversight and monitoring functions
- The collection process for delinquent accounts

We conducted this examination through interviews, reviews of documentation, analysis of the processes, and testing of the revenue processing.

This audit was conducted in accordance with generally accepted government auditing standards.