



SALT LAKE COUNTY AUDITOR'S OFFICE

SEAN THOMAS

Auditor

July 8, 2005

David E. Yocom,
Salt Lake County District Attorney
Suite S-3600
2001 South State Street
Salt Lake City, UT 84190

Dear David:

We recently completed an audit of the District Attorney's (DA's Office) debt collection function. Our audit included a review of accounts receivable turned over to the DA's Office for collection, a count of petty cash funds, and a reconciliation of imprest checking accounts.

To accomplish our work, we reviewed the collection process for accounts receivable files, pertinent policies and procedures, and statistical reports prepared by the Attorney's Office. We found many positive features during our audit. Specifically, we found that:

- Staff members were professional in fulfilling their duties, and were aware of the need for strong internal controls over cash handling and depositing.
- Effective internal controls and regular management review supported the system in place for collecting past due accounts and disbursing these collections to the proper agency.
- Petty cash funds and imprest checking accounts were in balance and regularly reconciled.

We did find some areas in which processes could be improved and internal controls strengthened.

COLLECTIONS, RECEIPTING AND DEPOSITING

An account receivable is generated when an agency accepts, in lieu of cash, a written or implied promise to pay in the future for goods or services that have been delivered. Most accounts receivable in Salt Lake County are an unavoidable result of patron failure to fulfill their obligations under contract or regulation. These include bad

checks, library fines and fines due to failure to renew needed licenses or permits, such as business or animal licenses.

County agencies undertake their own collection efforts before seeking help from the District Attorney's Office. Per Countywide Policy #1306, "Collection of Bad Checks," dishonored checks are referred to the Treasurer's Office. If the Treasurer's Office does not collect after two demand letters, the account is referred to the DA's Office.

The County Library System uses an outside agency, Unique Management Services, to contact library patrons who have overdue, lost or missing library materials, and demand return of overdue materials, or payment of replacement cost, and also payment of fines and fees. Unique Management's efforts primarily focus on the return of materials to the library.

If agency efforts are unsuccessful, accounts are turned over to the District Attorney's Office for collection. Though Countywide Policy does not require that this step be taken, most Agencies do so in an effort to maximize revenues and hold patrons responsible for their actions. The District Attorney is authorized to "prosecute all actions for the recovery of debts, fines, penalties and forfeitures accruing to the county." (UCA 17-18-1.5 (5) b). As shown in Figure 1 below, in 2003, 1,910 accounts were referred to the District Attorney's Office. The number of new accounts rose to 3,392 in 2004, an increase of 1,482, or 77.6 percent.

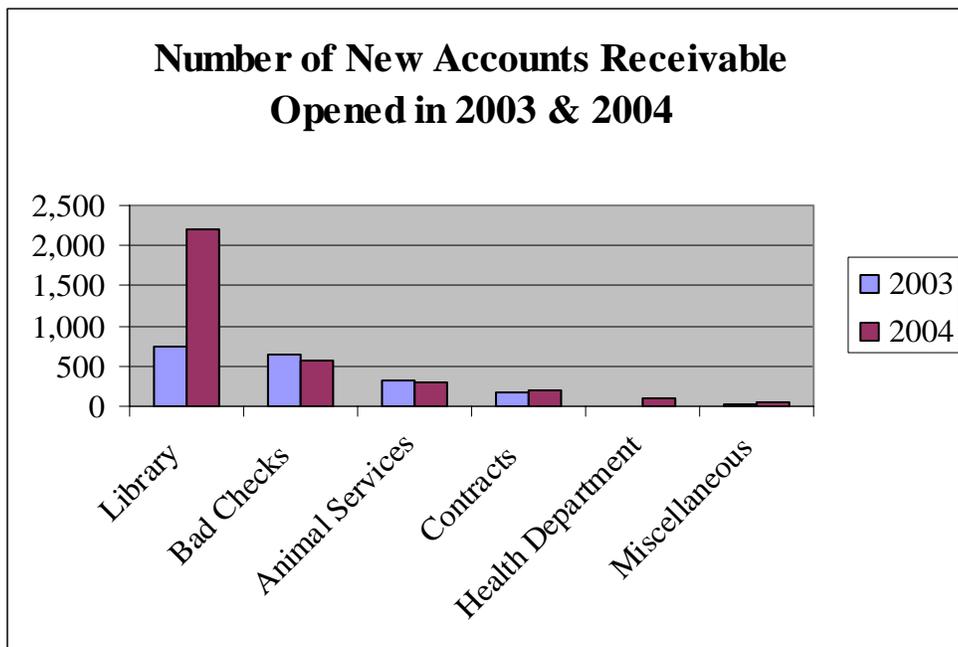


Figure 1: Number of new accounts received by the District Attorney's Office in 2003 and 2004.

The increase from 2003 to 2004 was almost entirely due to referrals from the library. The library began using Unique Management Services in 2003, and delayed referring any accounts to the DA's Office while Unique pursued its own collection efforts. Unique spends 120 days, or about four months, in pursuing an account before considering it as uncollectible. Following this transitional period to Unique Management, library accounts referred to the DA's Office increased from 746 in 2003, to 2,201 in 2004.

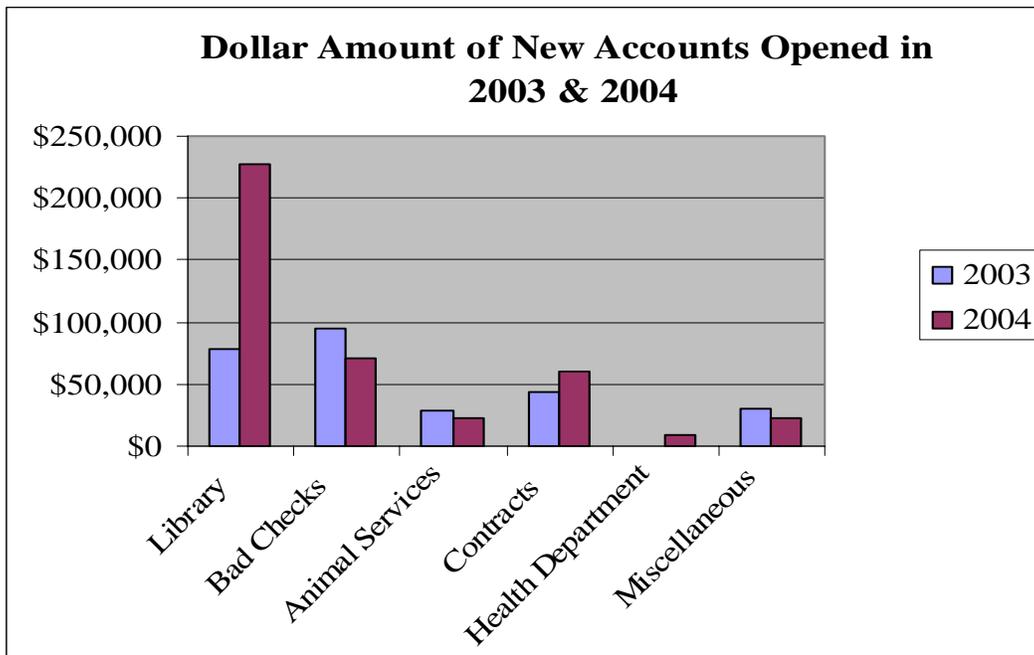


Figure 2: *New Library accounts increased by \$150,000 in 2004 when compared to 2003.*

New accounts referred to the DA's Office in 2004 totaled \$412,249, an increase of \$138,169 over 2003. Again, this was entirely due to new library accounts which increased \$150,270 from 2003 to 2004. This increase, and other statistics are shown graphically in Figure 2, above, and Figure 3, on page 4.

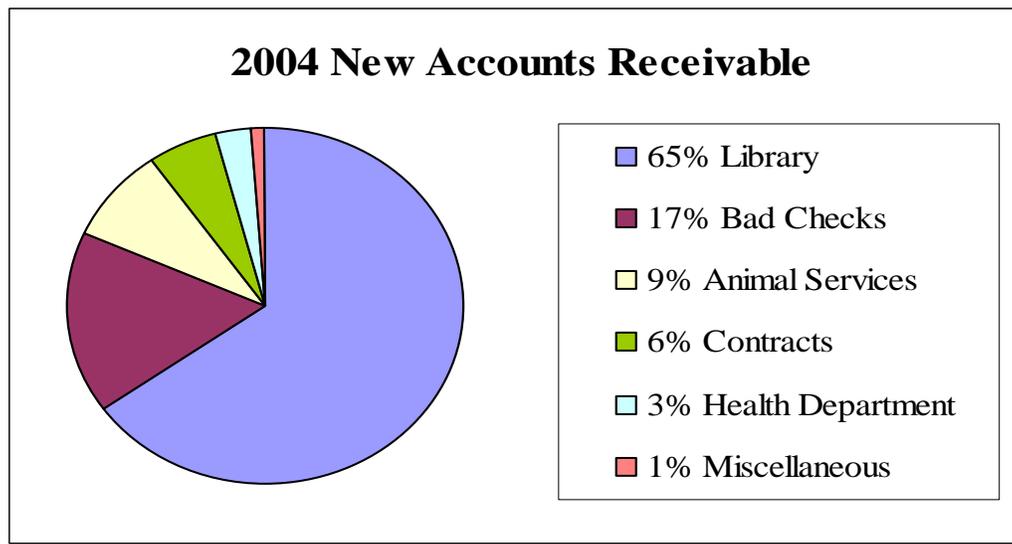


Figure 3: 65% of accounts turned over to the District Attorney for collection were from the library.

Once an account has been forwarded to the District Attorney's Office as an uncollectible or bad debt, the account loses its original character as, for example, a bad check or overdue library fine, and becomes one of many items on which the DA's Office is pursuing collection. It receives attention not only in the form of demand letters to the patron, but also in the submission of a summons and complaint to the court, if necessary. The court could then issue a judgment requiring payment. The judgment automatically places a lien on any of the individual's real property. Each account is handled according to established processes within the DA's Office. Key elements of the process are as follows:

- Data is entered into the collections database.
- Two demand letters are sent.
- Summons and complaint is prepared and submitted to the court.
- Summons is served.
- Default judgment is requested (after adequate time for a response).

Each client has multiple opportunities to respond during the process which may alter the sequence and character of steps just noted, and the resulting outcome. This process is flowcharted in detail in Attachment A. During our audit we found several areas in Accounts Receivable management in which we believe improvements could be made, as shown in the following findings:

- **There were no written accounts receivable policies or procedures.**
- **The computer software for managing accounts receivable was not fully utilized.**

- **The District Attorney's Office did not monitor outstanding amounts due to the County.**

There were no written accounts receivable policies or procedures. As we reviewed the steps taken by DA's Office personnel as they processed the accounts received from County agencies, we inquired about written policies which might govern their actions. In addition, we asked if there were written procedures to provide step-by-step instructions as each account passes through the many phases of accounts receivable processing. In each case, there were no written policies or procedures.

Written policies and procedures provide criteria against which to compare current practice. Should issues arise over the handling of a specific account, the policies and procedures would be a reference to provide answers to these questions. Written policies and procedures provide a common basis for understanding, to both staff and management, as to the correct handling of accounts receivable. Finally, written policies and procedures are likely to improve the timeliness of collections because of the consistency in procedural routine that they provide.

The District Attorney's Office has been working on a Countywide accounts receivable policy for over a year. This policy would provide for a uniform agency response to accounts receivable and detail steps to be taken in the collection process. Written internal policies and procedures specific to the internal operations of the District Attorney's Office should be in place regardless of the status of any pending Countywide Policy.

The lack of written policies can allow for inconsistent collection effort, not only from account to account, but also system-wide as employees place minor modifications and personal preferences into the process, which may have a cumulative effect over time. The absence of written policies also makes training new employees a more haphazard process. Without written policies as an aid to training, essential steps in the process may be missed or modified, rendering the internal controls, or the process itself, less effective.

RECOMMENDATION:

We recommend that the District Attorney's Office develop and implement written policies and procedures regarding the management of accounts receivable.

The computer software for managing accounts receivable was not fully utilized. The DA's Office used Access Database software, a module of Microsoft Office Suite, to manage accounts receivable. The Access Database software has been customized to include the following fields:

| | |
|---------------|--|
| Persons Name | Company Name |
| County Agency | Type (Of account receivable, i.e. bad check) |
| Check # | Amount (Due to the County) |
| Date of Loss | Unit # (If a vehicle was involved) |

| | |
|--------------------------|--------------------------|
| Notes | Civil Court # |
| Principal | Interest |
| Attorney (Fees) | Total |
| Sheriff Fee | Court Fee |
| Paid / Owe | Bankruptcy (Case number) |
| Dismissal / Satisfaction | Unable to Locate |
| Out of State | State of Residence |

When a new account is received in the DA's Office from a County agency, the agency's information regarding the client is entered into the database. The database contained a listing of 19,863 accounts at the time of our audit. Each field in the database is free text, meaning that the software will accept any entry placed in the field. This allowed for a variety of entries intended to have the same meaning. For instance, Bad Checks were listed in the "Type" field as: Check, CHECK, CHECKS, CHECJ, and CHECJ'. Each variation provided a different sort value, making the grouping of data for management reports more difficult.

Similar variations occurred in each field, including the "Principal" field. In one instance, we found an entry indicating an amount due of \$106,294. Upon further investigation, the actual amount due was \$1,062.94. The client had been entered into the database twice, with two different spellings of his last name.

Uniform entries into the database are the foundation for any meaningful management analysis. In a database with nearly 20,000 clients, and up to 22 fields per entry, standardized data is mandatory. The use of drop-down screens with choices for each data entry option is one way to ensure that each set of data will be entered in a uniform manner.

Access provides for data extraction and analysis in a variety of formats. The software itself allows queries and reports with the option to exclude certain data elements. For instance, a query could be run which excluded files marked paid and closed. The result would be a report which listed clients who still owed the County money. Another option might be to query the highest dollar amounts owed and then increase collection efforts on those accounts.

RECOMMENDATION:

- 1. We recommend that the District Attorney's Office modify the input protocol to require standardized data input into the Access database.*
- 2. In addition, we recommend that the District Attorney's Office explore methods to utilize the data extraction capabilities of Access to increase collections effectiveness.*

The District Attorney's Office did not monitor outstanding amounts due to the County. As part of the audit, we requested management reports utilized by the DA's Office to monitor accounts receivable, and were provided with monthly reports detailing

collections. Amounts collected were sorted by name of agency which made the referral. Client names, and amounts collected in principal and fees from these clients, were listed under each agency heading.

Using the reports provided, we found that collections in 2003 and 2004 were \$143,646 and \$163,407 respectively. The significance of these amounts is not readily determinable without first making a comparison to the total dollar amount of bad debt referrals on file. The DA's Office did not know, nor could they readily compute, this amount. The percentage of collections to total bad debt referrals provides a measure against which the success of collection efforts can be gauged.

One common feature of accounts receivable management systems is the aged receivables report. This report segregates amounts due into specific time periods, typically five, that have elapsed since account inception. It normally lists amounts due in a columnar format as being either current, meaning that the account has been outstanding less than 30 days, or greater than 30, 60, 90 or 120 days past due. The importance of this measure is apparent when considering that the probability of collection is greatly reduced as accounts receivable age. Collection efforts are most successful within the first 90 days of an accounts inception.

Because all accounts turned over to the DA's Office are from three to twelve months old, the probability of collection has already decreased significantly, and the aging report may therefore not seem as important. Nevertheless, it gives management vital feedback on the success of collection efforts and directs them to needed improvements. Using data provided to us in March 2005, we prepared a report of bad debt totals referred to the DA's Office each year for the past seven years and placed this data in a graph, as shown in Figure 4 on page 8.

As mentioned in the previous section, the DA's Office has under utilized the capabilities of Access software. We prepared the information in Figure 4 using the "Filter" capability of Access to remove accounts marked "Paid" or "Closed" from the information presented in the database. The "Query" function was then used to sort the accounts by date opened and to sum the amounts due. From that report, the amounts due by month and year were entered into an Excel spreadsheet, and the graph was created.

Monitoring accounts receivable through producing and reviewing reports of total outstanding accounts on hand, compared to actual amounts collected, and segregating outstanding accounts by age on an aging report, are all steps that will lead to improved collection rates.

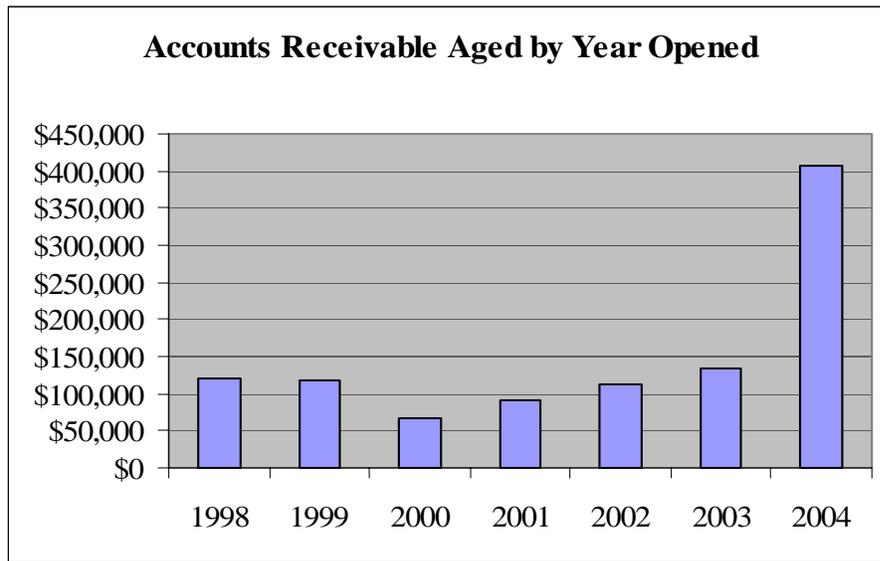


Figure 4: *Total accounts receivable averaged \$100,000 per year for the years 1998 – 2003.*

RECOMMENDATIONS:

- 1. We recommend that a feature be included in the District Attorney's Office Accounts Receivable system that will total amounts due to the County and summarize this data by year of referral to the DA's Office*
- 2. We recommend that accounts be aged in an aging report as a means to focus attention on any needed improvements in the collection process.*

IMPREST CHECKING AND PETTY CASH ACCOUNTS

In conjunction with our review of the accounts receivable system, we examined the six imprest checking accounts assigned to the DA's Office. One of these accounts is used to return collections to the agency which referred the account to the DA's Office. When collection is achieved on an individual account, the principal amount, or the original amount due to the agency, is remitted to that agency. The DA's Office forwards court fees and Sheriff or Constable fees to the appropriate agency, and retains any Attorney fees collected. This process is flow charted in detail as Attachment B.

This particular imprest checking account had been balanced to the most recent bank statement, March 2005, at the time of our review. In addition, controls over disbursements were strong and included segregation of duties with regard to collecting, depositing and subsequent disbursement of collections to the referring County agencies. Also, management regularly reviewed the account and reconciled it to the bank statement each month. We commend the District Attorney's Office for the strength of the internal control environment surrounding disbursements from this imprest checking account.

There are three additional imprest checking accounts within the Governmental Immunity division of the District Attorney's Office, Litigation (used to pay small dollar claims against the County), Witness Fees, and Garnishment. We completed reconciliations of each account to the most recent bank statement. Each of the imprest checking accounts balanced to the bank statement. In addition, the Fiscal Division of the DA's Office performed routine audits of these imprest checking accounts. We did find one area of concern as we completed the audit work.

- **Controls over issuing checks from the Litigation account could be strengthened.**

Controls over issuing checks from the Litigation account could be strengthened. The Litigation account (\$30,000 authorized balance) is used to pay claims against the County of \$2,500 or less. Claims greater than \$2,500 are sent to the Mayor's Office for approval, and are paid through the warrant system. All claims against the County are analyzed by a Claims Adjuster, validated, if appropriate, and then forwarded to the Risk Manager for approval and payment.

Currently, two Claims Adjusters, the Risk Manager and several attorneys are authorized to sign checks drawn on the Litigation account. Checks have two signature lines for two individuals to sign each check. The Fund custodian is also a Claims Adjuster.

Because the Fund Custodian/Claims Adjuster issues the checks, approves claims and signs on the account, this individual can control virtually all aspects of the transaction. The final step is the second signature and, since the check stock does not clearly state "Two Signatures Required," that step could be bypassed.

To strengthen internal controls, the duties of Fund Custodian and Claims Adjuster should be separate. Ideally, the Fund Custodian should be someone outside the direct authority of the Risk Manager. Alternatively, the Risk Manager should perform a detailed review of each transaction each month and sign accompanying documents as evidence of this review.

RECOMMENDATION:

We recommend that the custody of the Litigation imprest checking account be assigned to someone outside the claims approval process, or alternatively, that the Risk Manager perform a detailed monthly review of each transaction, and sign accompanying documents as evidence of this review.

The District Attorney's Office has two other imprest checking accounts and four petty cash funds located in different divisions at the Government Center, and the downtown office. We counted each petty cash account and reconciled each imprest checking account to the corresponding bank statement. All petty cash funds balanced to their limits as authorized on the list maintained in the Auditor's Office, and appropriate

David E. Yocom

July 8, 2005

Page 10 of 10

documentation to record disbursements and the purpose of these disbursements was in place and up-to-date. Expenditures were appropriate, and sales tax was not reimbursed.

We also reviewed each of the two imprest checking accounts, both of which balanced to their authorized limits. Expenditures were appropriate and monthly reconciliations to bank statements were completed. Finally, the Fiscal Division of the DA's Office performed routine audits of the petty cash funds and imprest checking accounts. We commend the District Attorney's Office for performing these tasks and for the strength of the internal control environment surrounding these imprest checking accounts and petty cash funds.

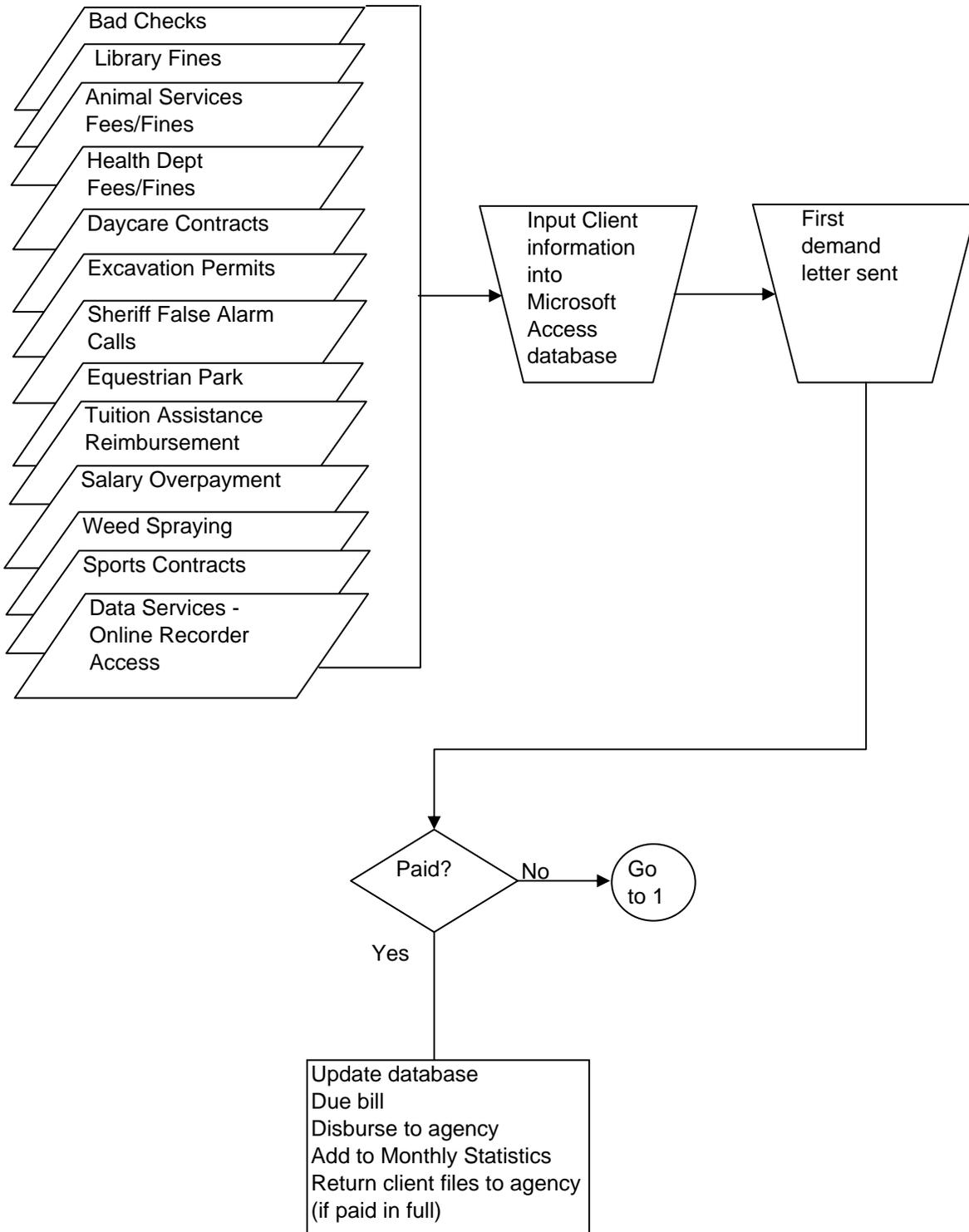
In closing, we express our appreciation to your staff for the cooperation and assistance they gave our auditors. We are confident that our work will be of benefit to you and help your organization improve processes and strengthen internal controls. If we can be of further assistance to you in this regard, please contact us.

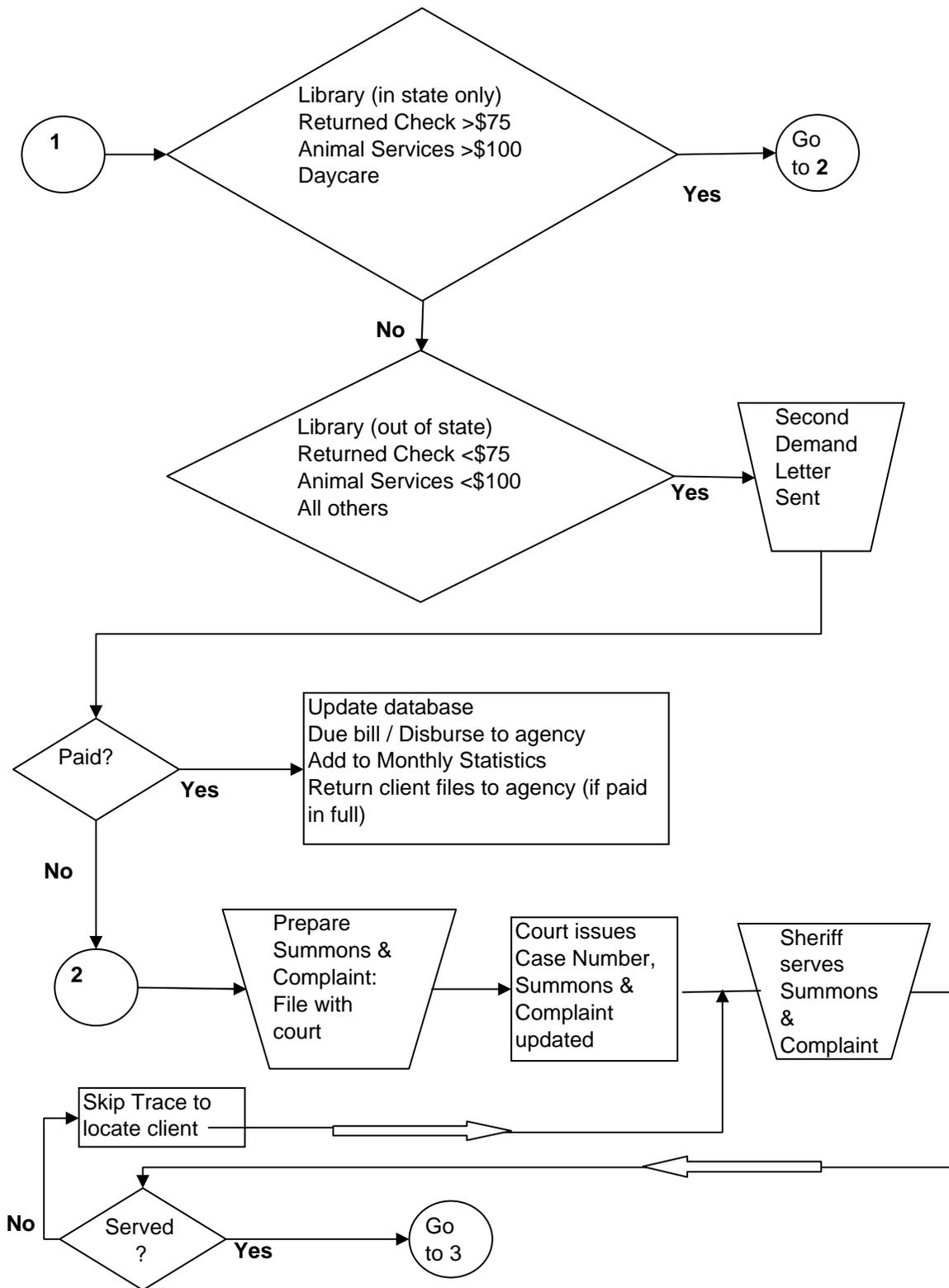
Sincerely,

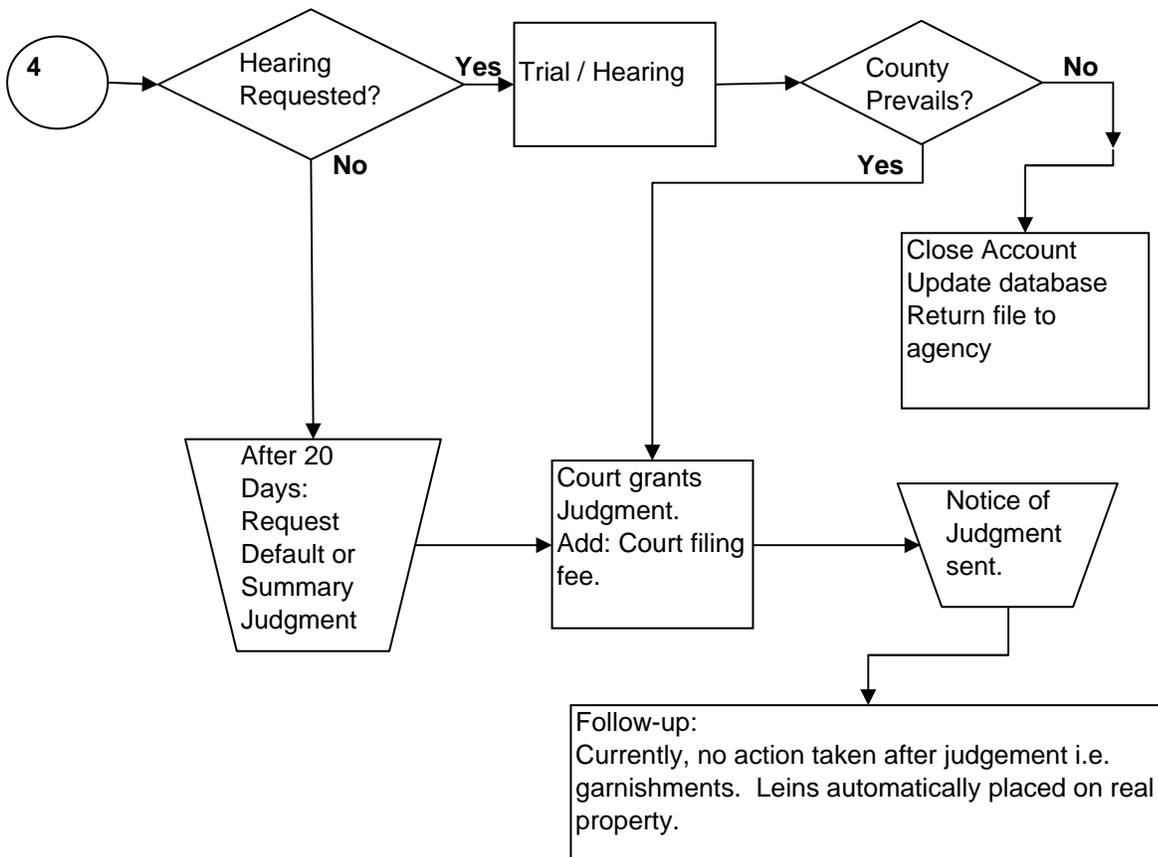
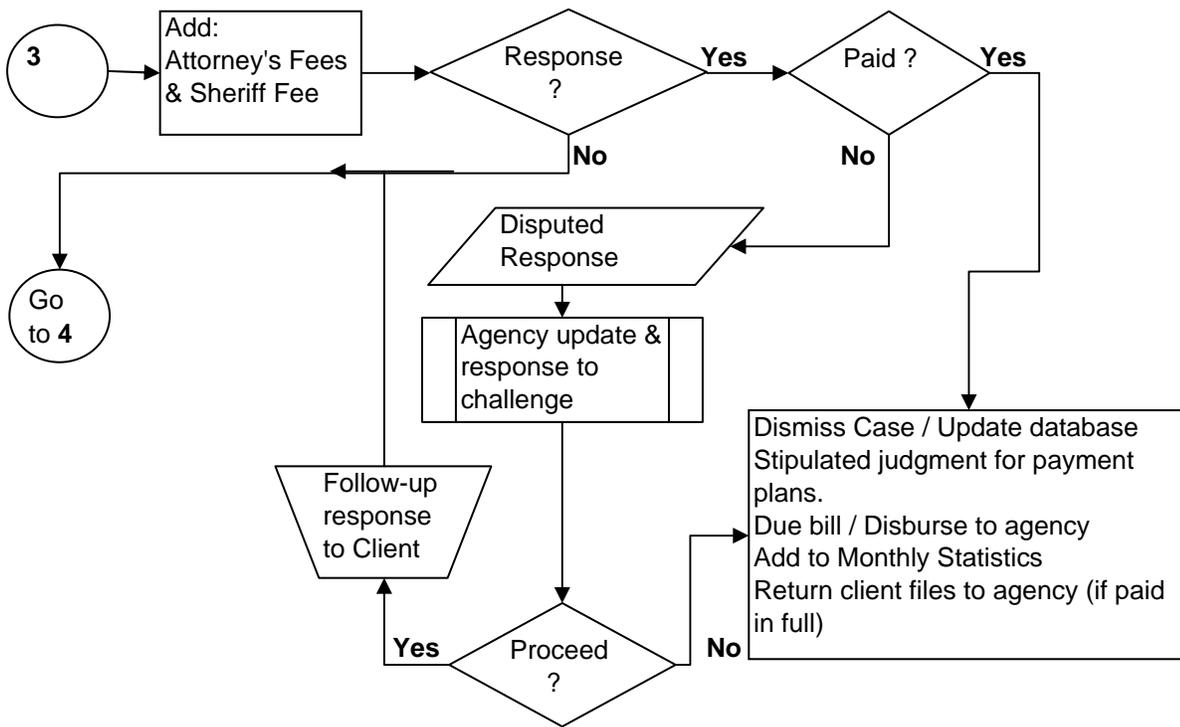
James B. Wightman, CPA
Director, Internal Audit Division

cc: Patrick Leary
John Soltis
Melanie Mitchell
George Stingley
Jeff Rowley

District Attorney's Office Debt Collection Process







**District Attorney's Office
Disbursing Amounts Collected**

