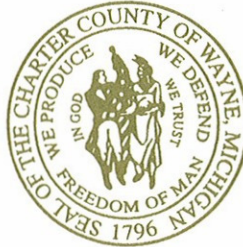


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September 1, 2011

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the assurance report on the Wayne County Department of Management & Budget, Grants and Contracts Administration/Central Accounts Receivable, Billing and Collections Activity. The report is dated May 6, 2011; DAP No. 2009-57-820. The contents of this report did not change significantly from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on August 23, 2011 and formally received by the Wayne County Commission on September 1, 2011.

You will be pleased to know that officials and staff in Management & Budget, Grants Compliance and Contracts Management/Central Accounts Receivable offered their full and complete cooperation during the review. If you have any questions, concerns, or desire to discuss the draft report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purposes. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: <http://www.waynecounty.com/commission/lagreports.htm>.


Willie Mayo, CPA, CIA, CICA
Auditor General

REPORT DISTRIBUTION

Wayne County Department of Management and Budget

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Office of Sheriff

Sue Hall, Director of Administration

Wayne County Executive



County of Wayne, Michigan

Department of Management and Budget

**Grants and Contracts Administration/
Central Accounts Receivable**

Billing and Collections Activity

Assurance Report

May 6, 2011

EXECUTIVE SUMMARY

Type of Engagement, Scope, and Methodology

This is an assurance engagement with the expressed purpose of assessing and expressing an opinion regarding the effectiveness and efficiency of Central Accounts Receivable (CAR). The fieldwork was completed on May 6, 2011 for this engagement and the scope of our work encompassed a three year period October 1, 2006 – September 30, 2009. The principal methodology used for this engagement was limited to inquiries, examination of documents, observations, analytical procedures, on-site visits, and trend analysis reviews.

Introduction

Central Accounts Receivable, a unit in the Department of Management & Budget is responsible for the development and enforcement of the Accounts Receivable Billings and Collection Policy\Procedure Statement which includes creating invoices and processing the incoming receipts for certain types of billable receivables.

The invoices created by CAR are based upon supporting documentation provided by certain applicable county departments/divisions/business units, and elected officeholders (referred to as users in report).

There are six employees assigned to CAR with an annual budget of \$800,000 or more. They are delegated the responsibility of preparing billings and collections of accounts receivable for the following functions: the housing of prisoners, alternative work force, prosecuting attorney, roads, assessment and equalization, and library services. CAR represents approximately 20% of the total accounts receivable balance as of September 30, 2009.

Central Accounts Receivable is carrying an accounts receivable balance of \$19 to \$28 million for the period October 1, 2006 - September 30, 2009.

Summary of Significant Issues

There are thirteen (13) findings and recommendations related to this report. We found eight (8) deficiencies related to control design and operational control deficiencies, one (1) is considered to be a significant control deficiency, and four (4) are considered to be material control weaknesses.

We have outlined some of the more significant material weaknesses in the executive summary and the others can be found in the assurance report detail.

Management agreed with twelve of the recommendations and partially agreed with one. They have provided responses to each recommendation in the detail section of this report beginning on page 12.

Audit Objective:

Assess the policies and procedures related to accounts receivable billing and collection activity and compliance therewith.

Condition – Material Weakness

Based on interviews and inquiries with some of the users, we were informed that the accounts receivable policies and procedures had not been effectively communicated to them.

Central Accounts Receivable is not taking the lead and responding to customers or referring customers to user areas to monitor delinquent balances, nor are they holding quarterly meetings with users. In addition, numerous invoices were written off before first being recorded as an allowance for doubtful accounts as required by M&B's policies and procedures manual.

We were also informed by management that due to a shortage of personnel in CAR and at the user locations, they are unable to adequately review and monitor billings and follow up on outstanding accounts receivable balances as required by M&B policies and procedures. Due

to a lack of resources it may be feasible to contract out these services. It is to be noted that the State of Michigan and the city of Detroit are currently contracting out similar services.

Audit Conclusion:

We conducted an assurance engagement to assess the billing and collections activity performed by the CAR unit. We concluded there are policies and procedures in place regarding accounts receivable activity. They are relatively thorough to ensure consistency, timeliness, accuracy, and completeness; however, we noted several areas where both the policies and procedures could be strengthened or they were not being adhered to.

Further, we noted Management & Budget should revise the accounts receivable policy to include threshold amounts that can be written off at the department level; other amounts in excess should require commission approval.

Audit Objective:

Assess performance of billing and collection activity.

Condition – Material Weakness

Central Accounts Receivable and user areas are not monitoring and discussing with customers the reasons for non-payment of invoices. In many instances, we noted that customers of the Sheriff's Office did not fully pay their invoices or in some instances only partially paid them because all of the necessary supporting documentation was not included. These invoices were subsequently written off by the county.

Specifically, one municipality needed a copy of the judgment order to process the invoice, another had not received notification to support the county's rate increase, and the third customer, Immigration and Customs Enforcement, indicated they needed a specific form (203) completed by the county in order to process the invoices for payment.

Further, CAR is not able to generate a report detailing the total amount billed/invoiced for the period under examination. Additionally, \$4 million in accounts receivable were written off by the Roads Division. We were informed by management that this was primarily due to billing in excess of the contract.

Audit Conclusion:

We concluded that CAR billing performance and ultimate collections of accounts receivable balances are moderately effective. However, we did find areas that could be improved to not only increase the efficiency of the billing and collection activity, but may also increase and accelerate the amounts being collected.

Audit Objective:

Assess the governance process, risk management and control activities over CAR.

Condition – Material Weakness

It appears CAR leadership perceives their role related to the preparation of billings and invoicing as passive and merely mediators between the user areas and their customers. They operate as if they have no authority to ensure compliance with the policy even though the policy clearly empowers them with this authority.

We believe they should be more proactive in this activity and more training and skills are required in order for the CAR to effectively carry out its mission and purpose or their entire function should be privatized.

Also, CAR management has not fully identified and assessed the risk associated with this activity. There is no documented evidence that they have assessed the risk of accepting billing information without proper support, the results of not communicating with user areas and following up on delinquent accounts.

More specifically, the Sheriff's Office was not always providing adequate supporting documentation and billing did not always represent valid services being performed. We also determined that had supporting documentation been provided by the Sheriff's Office that as much as \$261,274 possibly could have been collected.

Finally, we believe that control activities could be enhanced. While a comprehensive policy exists, we found a general lack of control activities that would ensure the policy is adhered to and the county collects all amounts invoiced.

Audit Conclusion:

We concluded that CAR officials are competent, dedicated, and have strong integrity and ethical values; however, we believe the governance process, risk management, and internal controls over billing and collections activity could be strengthened. However, due to a history of management failing to timely collect accounts receivable balances, we believe the county would do well to reorganize the CAR unit and explore the feasibility of contracting out the processing and collection of accounts receivables for the Sheriff's Office and Department of Public Service (DPS).

Views of Responsible Officials

We shared our conclusions and recommendations with management of the Central Accounts Receivable and the Office of Sheriff officials. They provided their response to each of the recommendations.

Overall Summary

We found numerous internal control deficiencies in CAR that places the county at risk of not being able to realize as much as \$20 million in revenue on an annual basis. Unfortunately this trend has been ongoing for several years and there does not appear to be a concerted effort by management to remedy the problem. Based on the OAG report dated September 30, 2004, it was noted that accounts receivables were stated at more than \$25.9 million as of September 30, 2003.

It becomes virtually impossible for the CEO to promote a balanced budget when as much as \$20 million in revenue goes uncollected in any given fiscal year.

We have determined that CAR from the period October 1, 2006 - September 30, 2009, has written off more than \$8.5 million in accounts receivable. There are more than \$19.3 million in CAR receivables as of September 30, 2009. There appears to be a trend of the county carrying large outstanding accounts receivable balances at the end of each year which exposes the county to the risk of failing to collect all that is due them on a timely basis.

Corrective Action Plan

A corrective action plan will be requested approximately 30 days after this report is formally received by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

ASSURANCE REPORT DETAILS

PURPOSE/OBJECTIVE

The Office of Legislative Auditor General's (OAG) 2009 annual audit plan included an examination of the county's CAR unit in the Department of Management and Budget, Grants and Contract Administration Division. The CAR was included in the audit plan because the unit had not been examined since September 30, 2004 and because it is responsible for processing 20 percent of all the accounts receivable for Wayne County.

The OAG performed an assurance engagement that included the following objectives:

1. Assess policies and procedures related to accounts receivable billing and collection activity and compliance therewith;
2. Assess performance of billing and collection activity; and
3. Assess the governance process, risk management, and control activities over CAR.

SCOPE

This engagement is not an audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. It is an assurance engagement in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

Those standards require us to plan and perform the engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our recommendations and conclusions related to the engagement objectives. We believe that the evidence obtained provides a reasonable basis for our recommendations and conclusions.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, systems, or other subject matter. In addition, it is an objective examination of evidence for the purpose of providing an independent assessment of governance, risk management, and control processes for the business unit.

Our examination was limited to assessing information provided by CAR and the various departments/divisions/business units of the county that perform activity resulting in billings and collection to external entities.

Our scope includes fiscal years beginning October 1, 2006 through September 30, 2009. The fieldwork for this engagement was completed on May 6, 2011.

The scope of this engagement does not include the collection of the following receivables: (1) The Detroit-Wayne County Community Mental Health Agency; (2) the Department of Environment; (3) the Department of Health & Human Services; and, (4) the Wayne County Treasurer. M&B states that these departments perform their own billing and collection functions.

METHODOLOGY

In order to assess the internal controls over billing and collections activity, we conducted observations, inquiries, analytical procedures, interviewed management and staff in CAR, trend analysis reviews, and performed walkthroughs of the various users of CAR services to gain an understanding how data required for billings is generated and compiled and how the information flows to the CAR and ultimately how invoices are generated.

We also conducted telephone interviews with three user divisions and conducted on-site visits with seven other users to gain an understanding of their processes related to the submission of billing to the CAR. In addition, we reviewed and analyzed the receivable balances recorded in the county's general ledger system. Finally, we contacted several customers to verify the appropriateness of and reasons for non-payment on long past-due invoices.

BACKGROUND

Central Accounts Receivable is a unit in the Grants and Contract Administration Division, Department of Management and Budget and is responsible for the development and enforcement of the Accounts Receivable Billings and Collection Policy\Procedure Statement.

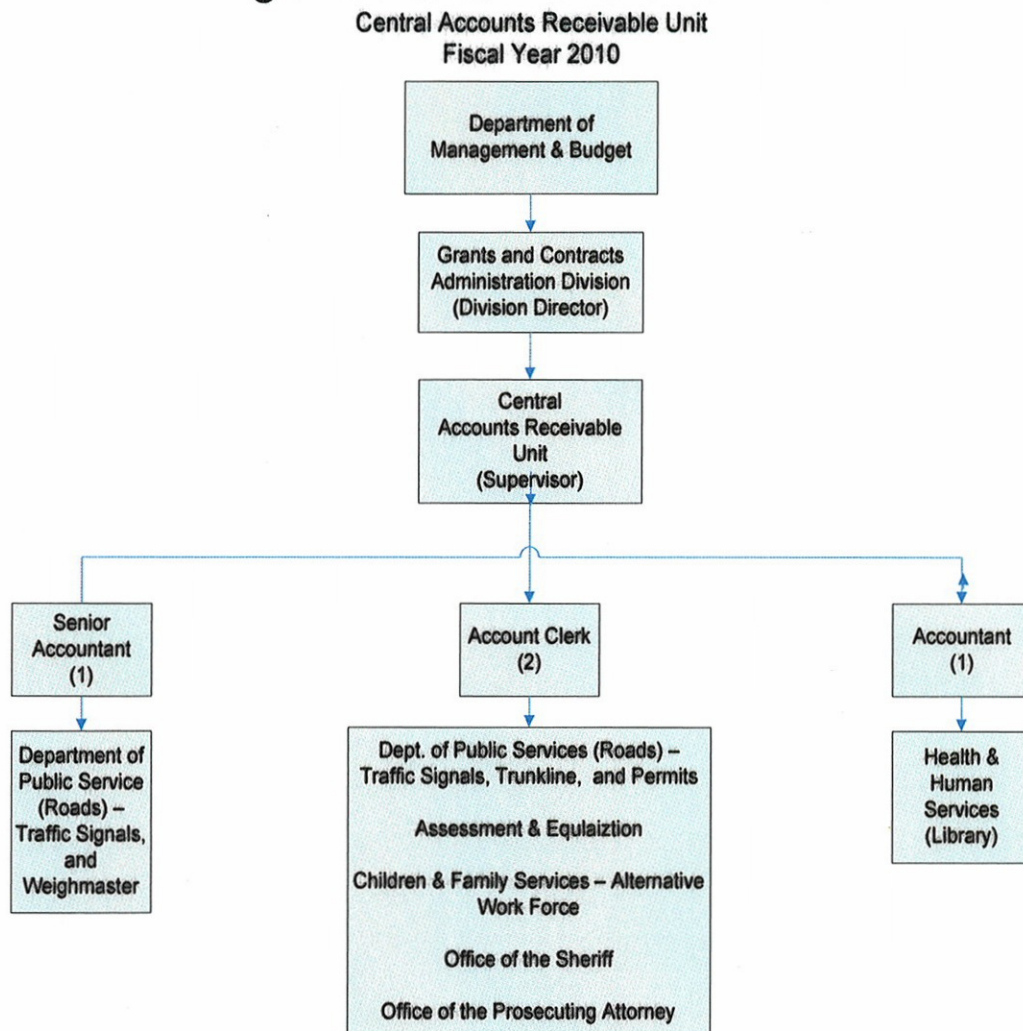
Accounts Receivable is a financial accounting term and represents amounts owed to the county generally from other public entities. The accounts receivable amounts are generated mainly from services provided or amounts contractually owed to the county via applicable state statutes, county ordinances or contractual obligations. The county also generates receivables from areas other than those processed by CAR. These departments perform their own billing and collection functions. Central Accounts Receivable represented approximately 20% of the total receivables balance as of September 30, 2009.

CAR Structure and Functions

There are currently six employees assigned to CAR. During fiscal years 2007 – 2009 CAR's operating budgets were: \$760,800, \$934,600, and \$819,406, respectively. CAR is responsible for preparing billings or invoices and processing the related receipts for the housing of prisoners, alternative workforce, prosecuting attorney, roads, assessment and equalization, and library services provided to local units of government.

See the following chart that graphically depicts CAR organizational and functional structure.

Organizational/Functional Chart



The amounts billed/invoiced are based upon supporting documentation provided by the applicable county offices, departments/divisions/business units who actually provide the service; throughout this report these areas are referred to as “users”. According to the Department of Management and Budget (M&B) Policy Number 14001, the user areas that provide services or

goods have the primary responsibility to initiate billing activity efforts and monitor outstanding or past due receivable amounts and pursue collections.

The following table identifies and describes the user areas that rely on CAR services and the types of activities that generate billings and related accounts receivable.

User Areas – Description of Activity Central Accounts Receivable 2007-2009	
User Area	Description of Activity
Office of Sheriff	Bill or invoice the Michigan Department of Corrections, U.S. Marshall Service, Federal Bureau of Prisons, U.S. Immigration Service and local units of government for housing and maintenance of their prisoners
Department of Public Services, Roads Division (DPS)	Bill or invoice the State of Michigan, Department of Transportation for services provided including the maintenance of State trunk lines and the issuance of permits for the maintenance of roads under the county's jurisdiction; traffic signals, the installation and modernization of traffic lights; and weigh master, the issuance of special hauling and transportation permits.
Department of Children & Family Services, Alternative Workforce Unit	Bill or invoice county departments, local units of government and other external entities for use of alternative workforce participants and supervision by county workers for miscellaneous clean-up, debris removal and light lifting.
Department of Health & Human Services, Library Unit	Bill or invoice local units of government for librarian wages and benefits, miscellaneous supplies, books and library services.
M&B, Assessment & Equalization Division	Bill or invoice local units of government for assessment services provided.
Office of the Prosecuting Attorney	Bill or invoice for attorney fees and filing fees associated with drug forfeiture cases.

ASSESS POLICIES AND PROCEDURES RELATED TO ACCOUNTS RECEIVABLE ACTIVITY AND COMPLIANCE THEREWITH

Accounts Receivable Policies and Procedures Exist

The Department of Management and Budget issued Policy Number 14001, Accounts Receivable Billings and Collections on July 14, 2008. The policy established guidelines related to billing or invoicing and collection of receivables.

The policy also addresses the following related to receivable amounts: (1) when to reserve an amount for uncollectible accounts, and (2) receivable management, in particular, how and when to write-off, and recovery of amounts.

Additionally, the policy outlines the responsibility of CAR along with the various users. According to the policy, Grants and Contract Management Division is responsible for the development, communication, revision, and enforcement of this policy. It also indicates M&B Satellite Finance offices are to assist in the interpretation and monitoring of adherence to the policy for their user departments.

Central Accounts Receivable responsibilities under the policy include mailing monthly invoices, meeting quarterly with users to review receivables for collection issues, preparing allowance for uncollectible accounts and write-off journal entries and follow up with users on account balances that have not been collected.

User Departments, Divisions, and Units

Responsibilities for user departments, divisions, and business units include: (1) providing accurate and appropriate billing information to CAR within seven days of providing service; and (2) contacting customers with outstanding balances in excess of sixty days and document those discussions.

Our review determined the policies and procedures in place regarding CAR and users are relatively thorough to ensure consistency, timeliness, accuracy, and completeness regarding accounts receivable billing activity. However, there does not appear to be adequate personnel and resources in CAR to properly review and monitor outstanding accounts receivable balances.

Further, based on our inquiries and discussions with users, some expressed a general concern that the policy has not been effectively communicated to them and training was not provided as necessary to ensure they fully understand their responsibilities. Of the users we contacted, most indicated they were not fully aware of the policy or their responsibilities as defined therein.

Recommendation 2009-01 – Control Deficiency

We recommend that when new policies are developed, they are properly communicated to all intended users and efforts are made to verify receipt and understanding of such policies. This could be accomplished by requiring all affected county personnel to sign a document attesting to receipt and understanding of the policy.

Management's Response

Central Accounts Receivable will ensure that policies are distributed through the new E-Learning system, which provides a tracking mechanism to ensure that all pertinent employees have accessed each policy, read it, and can correctly answer the knowledge test questions.

Condition

The OAG performed an audit of the CAR in 2004 and it was noted that there was an accounts receivable balance of more than \$25 million outstanding, and more than \$2.5 million were outstanding from the period 1995 through 2002. The accounts receivable balance as of September 30, 2009 is \$19.3 million with an allowance for uncollectibles of \$2.3 million; 95% of the accounts receivable balance is related to the Sheriff and Roads.

Based on our analysis, the performance on the processing and collection of accounts receivables has not improved since the last audit prepared by the OAG in September 2004.

The policy is very clear as to the responsibility of CAR and the users; however, there are no proactive measures being taken by either responsible party. This may very well be due to a lack of personnel and incentives offered to aggressively pursue the collection of outstanding accounts receivable balances, management's failure to prioritize the accuracy of processing invoices, and the collection of delinquent accounts receivable or an overall lack of department leadership, all of which could lead to a need to reorganize this department by contracting out these functions to a collection agency. It is to be noted that the State of Michigan as well as the City of Detroit contracts out similar services.

The CAR business unit has six employees and a budget of about \$800,000 which may be reallocated to other general fund purposes if it was reorganized and these services were contracted out.

More importantly, since most of the funding for the Sheriff's Office comes from the general fund, it is imperative that management explores all possibilities of collecting outstanding accounts receivable in an effort to increase general fund revenues.

Recommendation 2009-02 - Control Deficiency

M&B management should evaluate the feasibility of utilizing a collection agency for assistance with the monitoring and collection of delinquent accounts. Or as an alternative, consider contracting with an outside agency to handle the processing and collection of all CAR receivables.

Management's Response

M&B has developed a policy and it is in draft form. The title of the policy is "Accounts Receivable Delinquency and Collections Procedures". The policy discusses the procedures to be performed at various stages of aging of the receivables. The policy provides for referral of uncollected accounts to Corporation Counsel if certain criteria are met and a referral to a collection agency may be made upon a recommendation from the Chief Financial Officer.

Evaluation of Best Practices

The Government Finance Officers Association (GFOA), a highly respected and recognized professional organization of government finance and accounting professionals, issued a Recommended Practice for Accounts Receivable Activity. It recommends, among other things, the establishment of policies which should include when to reserve an amount as uncollectible, timely collection of delinquent accounts, and when deemed uncollectible, they should be written off.

We compared the GFOA recommended practices to the county's policy. We found that generally many of the recommended practices were included within the county's policy.

However, we did note that a couple of the recommended practices were not included within the county's policy. For example, the utilization of collection agencies and the need to establish thresholds for write-offs of delinquent balances with appropriate authorization. Conversely, Oakland County has a related policy that requires all delinquent accounts in excess of \$1,000 and above be documented and submitted to the Board of Commissioners for approval prior to being written off.

Condition

The county's policy is silent on who should approve account write offs. Currently, the Director of Grants and Contract Management Administration approves them upon receipt from the CAR supervisor. There is no one individual outside of CAR or M&B that reviews or approves a write-off prior to it occurring. This practice increases the risk that account balances are being written-off when they could be collected.

Recommendation 2009-03 – Control Deficiency

We recommend Management & Budget should revise the accounts receivable policy to include threshold amounts that can be written off at the department level and other amounts in excess of that should require commission approval.

Management's Response

The Director of Grants Compliance and Contracts Management approved write-offs of billings that were incorrect or over two years past due. The current policy is to remove those receivables that remain uncollected after two years. Rather than use thresholds, we address each invoice individually and specifically write off those that are incorrect. A policy entitled "Accounts Receivable Delinquency and Collections Procedures" is in draft form. It discusses the procedures to be performed at various stages of aging of the receivables. M&B will reconsider thresholds and approval levels for write-offs and make a recommendation to the Chief Financial Officer. Existing Policy/Procedure (PPS) Statement #14001, "Accounts Receivable Billings and Accounting Procedures" will be revised as appropriate. Revised PPS #14001 will be issued at the same time as the "Accounts Receivable Delinquency and Collections Procedures" policy is issued.

M&B is not in agreement with requiring Commission approval for write-offs. Accounting is an administrative day-to-day affair of an executive department and per the Wayne County Charter, the Commission shall not interfere.

Central Accounts Receivable and Users not Always in Compliance with Policy

We found that CAR and user areas are generally in compliance with the policy. However, we did find instances where both CAR and the users were not in compliance with certain aspects of the policy. Moreover, there are no adverse consequences for failing to comply with the policy. The following table identifies instances of non-compliance with the policy and the applicable responsible party.

Instances of Non-Compliance
Accounts Receivable Policy No. 14001
April 2011

Policy Requirement – Section IV-A	Responsible Party	
	CAR	User
Policy not formally provided to user officials	X	
Timely submit billings to CAR		X
Provide accurate and appropriate billing information to CAR within seven days of service		X
Contact customers with outstanding balances in excess of 60 days		X
Timely respond to customers and refer customers to user areas	X	
Follow-up with user areas on delinquent receivables	X	
CAR supervisor to meet quarterly with persons responsible for collection from user areas to review receivable and possible write-offs	X	
Invoices being written off before being placed in allowance for doubtful accounts	X	
Quarterly, provide documentation of discussion with customers on outstanding balances		X
Discuss with Chief Financial Officer or Corporation Counsel remedies if the customer is in bankruptcy or is non-responsive to requests for payment		X

Recommendation 2009-04 - Material Weakness

- We recommend Central Accounts Receivable comply with Policy #14001 and:
- Formally submit the accounts receivable policy to user areas.
 - Respond to customer inquiries timely and refer customers to user areas.
 - Follow-up with user areas on any receivable amounts that have not been collected, prior to them being written-off.
 - Conduct quarterly meetings with user departments to review receivables for collection issues and possible write offs.

Management's Response

For the first bullet point in this recommendation, please refer to our response under recommendation 2009-01 above. Please refer to PPS #14001. Within the policy is a section that is titled "Central Accounts Receivable Responsibilities." All responsibilities were followed with the exception of quarterly meetings and follow up with user departments on write offs. In the future, CAR will have quarterly meetings with the user departments and at that time write offs will be discussed along with training so user departments understand their responsibilities.

Central Accounts Receivable

Based on discussions with CAR and user officials and review of certain documents we found the following areas of non-compliance regarding:

- (1) CAR did not formally provide policies to leadership/management of user departments or divisions;
- (2) CAR is not taking the lead and responding to customers and/or referring customers to user areas to ensure delinquent balances are being followed-up on;
- (3) CAR is not following up with user areas on delinquent receivables;
- (4) CAR is not holding quarterly meetings with the users; and,
- (5) Numerous invoices were written-off before first being recorded in the allowance for doubtful accounts as required by the policy.

Recommendation 2009-05 – Control Deficiency

- We recommend Central Accounts Receivable and M&B Senior Management:
 - Schedule periodic training sessions with all user areas to ensure they understand the policy and their responsibilities in the accounts receivable process including collection of past due invoices.
 - Clarify instances in the policy where different interpretations exist and at least semi-annually report instances of non-compliance with the policy to the CFO.

Management's Response

Please refer to the last sentence in our response to Finding 2009-04 above. Training will be provided as necessary at quarterly meetings.

User Areas

User areas are also not always in compliance with the policy and procedures. Specifically, we found several areas of non-compliance:

- (1) Users such as the Assessment and Equalization (A&E) and the Sheriff's Office do not always submit their billing information within the required timeframe. It is noted that A&E provides CAR billing information on a quarterly basis and is currently one quarter behind on their billings. According to officials with A&E, the reason billings are behind is due to being short staffed. Based on our discussion with other users, it may not always be practical to send billing information within seven days of providing the service. As a result, CAR should consider assessing this aspect of the policy and determine what an appropriate timeframe should be for submission of billing supporting documentation.

- (2) The Sheriff's Office does not always provide adequate documentation to CAR supporting the billing request. Data such as a contact person and necessary supporting documentation is not always provided. As a result, there are many invoices generated on behalf of the Sheriff that ultimately are not paid or only partially paid due to insufficient information and supporting documentation. Therefore, the reconciliation process between the billing and support information cannot be completed by CAR. As a result, we found numerous invoices were written off that were actually inaccurate invoices that should have been credited to the customer's account. The current process has caused untimely billings, partial or non payments of invoices;
- (3) User areas are not contacting customers with outstanding balances in excess of 60 days;
- (4) User areas also are not providing quarterly updates and documentation of discussions with customers on outstanding balances; and,
- (5) There does not appear to be documented discussions with the Chief Financial Officer or Corporation Counsel on remedies if a customer is bankrupt or non-responsive.

Recommendation 2009-06 – Significant Deficiency

- We recommend user areas comply with Policy #14001 and specifically:
- Submit billings within the timeframe of the policy or have Central Accounts Receivable assess the policy to determine if it should be revised with a timeframe that is attainable.
 - Provide Central Accounts Receivable with adequate documentation to support the billing information such as contact person and any other necessary supporting documentation required for the invoice to be paid.
 - Contact customers with outstanding balances in excess of 60 days.
 - Provide documentation of discussion with CAR for customers with outstanding balances quarterly.
 - Discuss with the Chief Financial Officer or Corporation Counsel alternative recourses if the customer is in bankruptcy or is non-responsive to requests for payment.
 - Clarify instances in the policy where different interpretations exist and at least semi-annually report instances of non-compliance with the policy to the CFO.

Management's Response

CAR will discuss the policy compliance at the quarterly meetings with the user departments. Emphasis will be placed on the necessity of preparing accurate billings. Subsequent to the issuance of this AG report, M&B created a finance director's position within the Sheriff's department. That position will oversee, monitor, and enforce compliance with M&B's accounts receivable and collection policies.

Condition

Based on our inquiries, we were informed that CAR was not able to generate a report that provided the total amount billed/invoiced and related collections for fiscal years ended 2007,

2008, or 2009 for the user areas that provide accounts receivable activity. The Department of Management and Budget's information technology consultant was able to provide a county-wide report of amounts invoiced and related collections; however, the report did not identify amounts billed and collected by user areas. Being able to generate such informational reports is invaluable to performing analysis of billings and collections by users.

Recommendation 2009-07 – Material Weakness

We recommend Central Accounts Receivable work with M&B financial reporting division and the Department of Information Technology to ensure CAR is able to readily generate reports of amounts billed/invoiced and corresponding collections by user areas and/or customers.

Management's Response

CAR's focus has historically been on outstanding receivables and not on total billings and collections. CAR concurs that a report on total billings and collections by user departments would be a valuable tool for analysis and discussion with the departments. CAR will pursue the creation of such a report.

ASSESS PERFORMANCE OF BILLING AND COLLECTION ACTIVITY

Condition

During our review, we performed an analysis of the various billings and collections of CAR. From this analysis, we were able to determine that amounts written-off by the county have increased over the last three years.

The CAR balance decreased from \$28 million in 2007 to \$19 million in 2009. The principal portion of the decrease appears to be due to the increase in write-off activity. The CAR write-off was \$1 million in FYE 2007 and increased to almost \$6 million in FYE 2009.

We also examined the specific users' activity to determine where the significant write-offs were occurring. We found the Sheriff's write-off amounts represented 86 percent of the total write-offs in FY 2007. As of September 30, 2008, the Sheriff's write-offs decreased to 47 percent. Finally, as of September 30, 2009, the Sheriff's write-off account represented about 48 percent of the total amount written-off.

Regarding another user, the Roads Division, our analysis showed for fiscal years ended September 30, 2008 and 2009, the amounts written-off increased significantly. According to CAR officials, the policy was issued in July 2008 and it states that invoices over one year old

should be considered uncollectible and an allowance set-up. Prior to the issuance of the policy, invoices for Roads activity were not written-off. The officials further stated that many of the billings to the State of Michigan for services provided by Roads were not paid because the county had reached the maximum billable amount allowed under its agreement with the state. Upon notification from the state, a decision was made to write off the invoices that exceeded the allowable amount.

Recommendation 2009-08 – Material Weakness

We recommend the CAR work with the Roads Division to ensure that billings do not exceed the amount allowable by the agreement.

Management's Response

The \$1 million and \$3 million written off were an accumulation of prior year's billings. The write offs were a combination of compliance with PPS #14001 and the result of the State of Michigan, Department of Transportation completing audits of construction projects.

Condition

The following tables summarizes the accounts receivable activity of various users of CAR, including the amount written off, allowance for doubtful accounts and the accounts receivable balance for fiscal years ended September 30, 2007 - 2009.

Summary of Activity Central Accounts Receivable As of September 30, 2007

User Area	Amount		Accounts Receivable Balance	Percentage Of Write-Offs
	Written-Off	Allowance		
Sheriff	\$819,620	\$2,813,280	\$9,598,622	86.1%
Prosecuting Attorney	23,764	132,245	197,292	2.5%
Roads	0	4,622,372	16,592,283	0%
Alternative Workforce	24,450	4,510	15,280	2.5%
Library	20,485	60,270	374,572	2.2%
Assessment & Equalization	63,353	178,206	870,174	6.7%
Total	\$951,672	\$7,810,883	\$27,648,223	100%

Summary of Activity
Central Accounts Receivable
As of September 30, 2008

Users Department	Amount		Accounts Receivable Balance	Percentage Of Write- Offs
	Written-Off	Allowance		
Sheriff	\$798,417	\$1,363,988	\$9,102,203	47.0%
Prosecuting Attorney	6,011	470	155,536	0.4%
Roads	853,515	3,412,029	10,606,806	50.3%
Alternative Workforce	4,510	0	16,852	0.3%
Library	0	117,224	607,242	0%
Assessment & Equalization	35,703	47,221	402,600	2.1%
Total	\$1,698,156	\$4,940,932	\$20,891,239	100%

Summary of Activity
Central Accounts Receivable
As of September 30, 2009

Users	Amount		Accounts Receivable Balance	Percentage Of Write-Offs
	Written-Off	Allowance		
Sheriff	\$2,848,108	\$520,254	\$4,801,037	48.3%
Prosecuting Attorney	470	2,312	53,079	0%
Roads	3,029,681	1,828,395	13,818,079	51.4%
Alternative Workforce	939	0	29,599	0%
Library	0	11,202	417,275	0%
Assessment & Equalization	16,062	4,445	226,087	.3%
Total	\$5,895,260	\$2,366,608	\$19,345,156	100 %

Analysis of Write-Offs and Collections

In order to determine why the written-off amounts have increased over the years, we performed a test of billings and subsequent collections. To perform the test, we assessed which user areas had the greatest write-off activity for the period of our review. For the three year period, the Sheriff Office's write-offs represented 52 percent of the total write-offs and the Roads Division represented 45 percent.

Based on the amount and percentage of write-offs, we selected the Sheriff's Office as our focus for the test. Our test included looking at the Sheriff's Office billings with the largest dollar amounts for FY 2008. Within this period, they billed 18 different customers. Of the 18 customers, we reviewed six customers in detail that represented just over \$2 million, or 34 percent, of the total amount billed. Based on our analysis and discussions with the

representatives of these six customers, it appears that as much as \$1.7 million of the billings were the result of inaccurate information provided by Sheriff personnel to CAR that should not have been billed. We also determined that had supporting documentation been provided to two of the customers, as much as \$261,274 could have been collected for amounts written-off in 2008.

Reasons Provided for Not Paying Invoice
Office of Wayne County Sheriff
Fiscal Year 2008

Description	Economic Hardship	No Supporting Documentation	Possible Recoverable Funds	Inaccurate Billing/Invoices
U.S. Immigration & Naturalization		\$194,844		
Michigan Department of Corrections				\$1,713,810
City of River Rouge		\$66,430		
City of Flat Rock			\$10,205	\$1,820
City of Highland Park	\$80,950			
City of Wyandotte				\$26,449
Total:	\$80,950	\$261,274	\$10,205	\$1,742,079

Based on our test work and discussion with customers, we determined that the county was not always billing in accordance with the guidelines established or receivable balances were being written off that could possibly have been collected.

Prisoners are detained by the Sheriff in Jail Divisions I, II or Hamtramck Jail Division III. Monthly billings for housing and maintaining prisoners for the Michigan Department of Corrections, U.S. Marshal Services, Federal Bureau of Investigation, U.S. Immigrations Service and local municipalities occur. Each month user's personnel in the Sheriff's Office prepare monthly billings and forward them to CAR to invoice the various customers. During our test, we found billings were being prepared that charged for days that were not allowed or permissible for the State of Michigan, U.S. Custom and Immigration Regulation Office, and municipalities. Conversely, we found instances where, if proper supporting documentation had been provided, the invoices would have likely been paid.

Recommendation 2009-09 – Material Weakness

We recommend Central Accounts Receivable and user departments:

- Review and monitor the outstanding receivables with their customers on a regular basis and determine the reasons for non-payment and what documentation is needed to collect the amount due the county.
- Ensure that all future invoices contain the required supporting documentation and provide any necessary documentation that will allow the remaining balance to be collected.

Management's Response

This finding appears very similar to finding 2009-04; consider combining. For customers that correspond with CAR regarding billing disputes, their comments are forwarded to the user departments for resolution. CAR furnishes an Open Accounts Receivable Aging Report to user departments for their use in correspondence with customers. The user departments will be encouraged to discuss such issues at the quarterly meetings.

Improper Billings for Non-Allowable Days

The Sheriff's Office was submitting improper documentation for billing of days prior to sentencing for parole violators. Specifically, the State of Michigan reimburses the county for housing parole violators. Prior to FY 2008, the State of Michigan would only pay for parole violators from the time of sentencing until release. However, the county was billing from the time the violator entered the jail until release, resulting in billings for improper days. After 2008, the contract was changed to allow the county to bill the entire stay. As a result, \$516,701 was written off in FYs 2007 and 2008 that never should have been billed under the existing contract. This resulted in the overstatement of revenues in the accounts receivable balance.

Improper Billing – Illegal Immigrants

In the Code of Federal Regulation 8-CFR.287.7, it allows the county to bill for housing illegal immigrants. However, all such detainees are required to be housed for the first 48 hours without charge. After the first 48 hours the county can bill the U. S. Immigration and Customs Enforcement Office. The county was not always billing in accordance with the regulation and billings did not always include adequate supporting documentation.

Specifically, the county was improperly billing for the first 48 hours. In addition, the county did not always include the required 203 form, which is the legal order to detain the illegal immigrant. For FYs 2007 and 2008 total write-offs were \$200,368 of which a portion could have been collected had the proper 203 form been included with the billing. In addition, a portion of the amount that was written-off never should have been billed, which resulted in the revenues and receivable balance being overstated. Subsequent to our report date, officials from the Sheriff's Office indicated the county is no longer housing the illegal immigrants.

Improper Billings to Municipalities for Charges not Authorized

According to the Wayne County Ordinance #2006-154, "inmates who are committed to the Wayne County Jail as a result of charges made under a local ordinance or for failure to pay a civil fine, shall be billed to the local unit of government at a per diem rate of \$35 per day. Inmates held as a result of charges made under state statute are to be held without cost." Officials we contacted at several local municipalities indicated the CAR often billed them for

prisoners held on state charges they are not required to pay. In addition, officials indicated that they are sometimes billed for other municipalities' prisoners.

For example, if an inmate is detained on a violation for a warrant in Flat Rock along with an outstanding warrant in Wyandotte, both communities are being billed the \$35.00 per day. It is the opinion of these officials that the charges should be split between the communities that have the outstanding warrants. In FY 2008, Flat Rock and Wyandotte had write offs in the amount of \$12,025 and \$26,449, respectively. Total write offs for municipalities were \$260,809 in FY 2007 and FY 2008. However, a portion of what was written off should never have been billed. This situation again resulted in revenues and accounts receivables being overstated.

Recommendation 2009-10 – Control Deficiency

We recommend the Sheriff's Office continue to work with the Commission to modify Ordinance #2006-154 to include provisions for splitting costs when an inmate is being held on outstanding warrants from multiple municipalities.

Write-offs that Likely Could Have Been Collected

During our test, we noted that customers either did not pay their invoices or did not pay them in full because supporting documentation was not included with the invoices. These invoices were subsequently written-off for non-payment. Based on our discussion with three municipalities that had outstanding receivables with the Sheriff's Office, these amounts could have possibly been collected if appropriate supporting documentation was provided to these municipalities. For example:

- The City of River Rouge had outstanding invoices in the amount of \$66,430 that representatives from the city indicated if a copy of the judgment order was sent with each invoice they would have paid it.
- The City of Flat Rock stated they have not paid their invoices in full because they had not received documentation to support the increase in rate from \$30 to \$35 a day for housing inmates charged under local ordinances. During our test, the amount quantified that could have been collected, had the documentation been supplied, was \$10,205. The OAG audit staff provided a copy of the ordinance and the city indicated going forward they would pay the \$35 per day.
- Immigration and Customs Enforcement (ICE) officials indicated that many outstanding invoices to them were the result of the 203 form not being submitted with the invoice. During our review, we quantified as much as \$194,844 of the ICE billings that could have been paid had the proper documentation been supplied.

Condition

While policies and procedures require follow up with customers, it appears the user areas and CAR were not following up to determine why the invoices were not being paid. In summary, we determined that for the period October 1, 2006 through September 30, 2009, the county was not

able to collect as much as \$271,479 due to failure to provide adequate documentation to other governmental units.

Recommendation 2009-11 – Material Weakness

We recommend the user areas provide CAR with adequate supporting documentation according to the accounts receivable guidelines.

Management's Response

The quarterly meetings between CAR and the user departments will discuss delinquencies and what documentation will be required to prepare correct billings. CAR is provided authority by the policy for development and enforcement of the policy. In certain cases, the user departments are under the auspices of another elected official and thus there is limited means for enforcement.

No Discount or Late Fee Charges

The OAG performed an audit of CAR in September 2004 and followed up on a recommendation in November 2005 regarding the charging of interest on late payments. Management stated they considered the recommendation but decided not to charge late fees because the vast majority of the outstanding receivables are due to disputes or the customer has requested additional information to verify the charges. Therefore, it would be inappropriate to charge interest or late fees.

It is noted the OAG report did not discuss the offering of a discount if the invoices were paid early. Not charging interest or offering a discount could be a contributing factor to the lack of urgency in resolving disputes and the increase in delinquent accounts receivable.

According to commission legal counsel in an opinion letter dated September 21, 2009, the "County's ability to charge and collect interest and late fees depends on many factors and should be made on a case-by-case basis."

Recommendation 2009-12 – Control Deficiency

Management and Budget should consider charging a late fee to proprietary businesses and a discount of 2 - 10% to all their customers for early payment within a 30 day cycle.

Management's Response

Consideration could be made for applying late fees on the construction permit inspection billings. Most CAR customers are other governmental units. The fees billed by CAR are generally to recoup costs of providing the service. Approximately 75 – 80% of the billings are paid within 60 days of receipt of the invoice.

ASSESS THE GOVERNANCE PROCESS, RISK MANAGEMENT, AND CONTROL ACTIVITIES OVER CAR

We assessed the governance, risk management, and control activities over the Central Accounts Receivable Unit (CAR).

Governance

The governance process is the authoritative direction or “Tone at the Top” provided by management. In assessing the governance process over CAR, we considered several elements such as the control environment; integrity and ethical values of management; management’s commitment to competence; and management’s philosophy and operating style. We also assessed the organizational structure and assignment of authority and responsibility.

We concluded that CAR officials are competent, dedicated, and have strong integrity and ethical values; however, we believe the governance process over billing and collections activity could be strengthened. The CAR unit handles the accounts receivable activity for six areas throughout the county. The unit meets informally on a regular basis with M&B senior management to provide an overview and update of current issues and progress within the unit. Management of CAR also provides a formal report in conjunction with the executive branch’s “Managing for Results” initiative, which is used to measure and assess productivity.

Condition

Our impression is CAR perceives their role related to the preparation of billings or invoicing passively and as merely a mediator between the user areas and their customers. Management of CAR also operates as though they have no authority to ensure compliance with the Accounts Receivable Billing and Collections policy.

The policy states responsibility for the development, communication, revision, and enforcement of the policy is the responsibility of CAR. We found CAR management not to be proactive nor demonstrate a strong leadership role regarding monitoring, oversight and management over the billing, reconciliation and processing of invoices or collections. Their failure to exercise an active oversight role increases the risk of processing inaccurate billings and has resulted in non-payment from customers.

In general, leadership does not appear to provide an incentive or urgency to maximize the collection of accounts receivable in CAR. Since Roads and the Sheriff’s Office make up the majority of the CAR outstanding accounts receivable balances, we believe it would be more economical and efficient if they handled the processing of the billings and the collections of receivables for their own respective departments and CAR reviewed and monitored the collection on a monthly basis.

Recommendation 2009-13 – Control Deficiency

The executive branch leadership should perform a thorough review over the CAR and consider reorganizing this department or contracting out the services in the future.

Management's Response

CAR officials met with Sheriff Department officials during the period July through December 2008 and issues with respect to parole detainees and diverted felons billings were resolved. The scope of this consulting report is for the period of October 1, 2006 through September 30, 2009 with fieldwork consuming two years from the start date of July 2009. Within those two years, M&B has created a finance directors position for the Sheriff Department. In addition, County Administration is actively pursuing collection of outstanding receivables including offset of balances owed by the County, where legally permissible.

Risk Management

Risk management is a critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified, assessed, and appropriate mechanisms put in place to mitigate or manage such risk. Risk management is the identification and analysis of relevant risk that may prevent the achievement of the organization's or unit's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

Condition

It appears CAR management has not fully identified and assessed the risk associated with their activity. Specifically, there is no documented evidence that they have identified and assessed the risk associated with: (1) accepting billing information from user areas without proper supporting documentation; (2) failure to effectively communicate with user departments as necessary; or, (3) following up on delinquent past due accounts to ensure collections.

The failure to manage the risk over the billing and collections has resulted in the overstatement of accounts receivables in any given year and resulted in the write-off of more than \$8.5 million in accounts receivable over a three year period.

Control Activities

Control activities are policies, procedures, practices, techniques and mechanisms that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks that may prevent the organization from achieving its mission and objectives. They include a range of activities such as policy and procedural manuals, approvals, authorizations, verifications, reconciliations, security of assets, and segregation of duties. Control activities can be either preventive or detective. Preventive controls are designed to deter the occurrence of an

undesirable event, while detective controls are activities designed to identify undesirable events after they occur and alert management. This enables management to take corrective action.

Condition

It appears the control activities over the user areas could be enhanced. While M&B has issued a comprehensive policy, we found a general lack of control activities that would ensure the policy is adhered to. Moreover, it appears that CAR does not exhibit the leadership to ensure the policies and procedures are followed. Although communication appears adequate within the unit, there is a general lack of communication between CAR and the user areas it serves. In essence, the controls are in place, but are not operating in the manner in which they were designed.

VIEWS OF RESPONSIBLE OFFICIALS

We shared our observations and recommendations with management of Grants/Contract Administration/Central Accounts Receivable. They provided their response to each of the recommendations.

CONCLUSION

In summary, based on work performed for this engagement we have determined that CAR from the period October 1, 2006 - September 30, 2009, has written off more than \$8.5 million in accounts receivable. There are more than \$19.3 million in CAR receivables as of September 30, 2009. Based on our review of the OAG report dated September 30, 2004, it was noted that accounts receivable were stated at more than \$25.9 million as of September 30, 2003. There appears to be a trend of the county carrying large outstanding accounts receivable balances at the end of each year which exposes the county to the risk of failing to collect all that is due them on a timely basis.

Based on our communication with the municipalities with outstanding balances due the county, it was concluded that the majority of the uncollectable accounts receivable were due to billings in error and for the incorrect amounts, and a general failure of CAR and the users to monitor and follow up on the collection of outstanding amounts due the county. In most instances, it appears the customers are solvent and willing to pay if they are contacted and provided with the proper documentation for services being rendered.

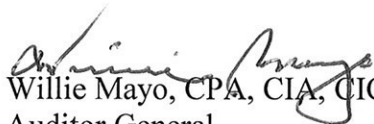
Central Accounts Receivable processes billings and collections for several major units within the county. The billings and collections represent a considerable amount of money. As a result,

controls need to be in place to ensure that the billings are timely and accurate and the subsequent collections are received and processed timely and for the correct amount. When billings are not accurate, time and efficiencies are wasted on collections that will never be received.

In this difficult economic climate it is imperative that all parties including Central Accounts Receivable, user departments, and customers work together to reduce the amount of inaccurate billings and ensure timely collections of receivables.

A corrective action plan will be requested approximately 30 days after this report is formally received by the Wayne County Commission. If sufficient corrective action is not taken, a follow up review may be necessary.

This report is intended solely for the information and use of the Department of Management & Budget, Central Account Receivable and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.


Willie Mayo, CPA, CIA, CICA
Auditor General

APPENDIX

DISCUSSION/DEFINITION: CONTROL DEFICIENCIES, GOVERNANCE, RISK MANAGEMENT AND CONTROL ACTIVITIES

Control Deficiency

A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when: (1) a control necessary to meet the control objective is missing; or, (2) a deficiency in operation exists when a properly designed control does not operate as designed, or when performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency

A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in the management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness

A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and/or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.

Governance

The governance process is considered one of the most important elements of internal controls. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone of an organization, program, or activity, influencing the control consciousness of its employees. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees; and the attention and direction provided by the commissioners.

The absence of good governance structures and lack of adherence to basic governance or management principles increases the risk of loss, fraudulent financial reporting, and misappropriation of an organization's assets and resources. Good governance is one of the key controls to reduce the risk of management overrides.

Risk Management

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified and assessed. Risk management is the identification and analysis of relevant risks, which exist within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing compensating controls, where required, to enhance the probability of achieving the organization's objectives and protecting the interest of the stakeholders.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operating and performance, security of assets and segregation of duties. It is action taken to minimize risk. The need for a control activity is established in the risk management process.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.