

ACCOUNTS RECEIVABLE REVIEW

**AS OF
JUNE 30, 2008**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

We have completed our interim review of the Commonwealth of Virginia's accounts receivable reported as of June 30, 2008. This report does not include amounts due to the Department of Taxation and unpaid fines and costs owed to the Virginia Courts. We plan to issue separate reports on these receivable amounts and their collections at later dates.

Our final report on the agency and institution accounts receivable covered in this report will include a comparison of the collection procedures that agencies and institutions use to collect amounts to best practices. For the interim review, our objectives are.

1. Determine the role of the agencies involved in the receivables process.
2. Classify receivables as of June 30, 2008.
3. Determine current collection processes.
4. Evaluate the current receivable reporting method.
5. Recommend improvements for the reporting of the Commonwealth's receivables.

The interim report identifies that, of the agencies reviewed, most amounts due and collected by the Commonwealth are part of agencies' and institutions' normal operations and will not provide the General Fund of Commonwealth substantial resources. The report also recommends several changes which would enhance a reader's understanding of the amounts due and the ability to monitor the collections of the various agencies and institutions involved in the generation and collection of these receivables.

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BACKGROUND

At any point in time, the Commonwealth of Virginia has account receivables of over \$1 billion, excluding unpaid taxes to the Department of Taxation and unpaid fines and costs due the Virginia Courts. Why does the Commonwealth have receivables and to whom does the Commonwealth provide services and extend credit? Unlike many businesses, the Commonwealth is not able to extend credit only to creditworthy citizens by performing credit checks and establishing an individual's credit worthiness prior to providing services. In many cases, the Commonwealth is required to provide services to indigent individuals who otherwise cannot afford services. This is the case for some of the medical and social services provided by the Commonwealth. The Commonwealth also acts as an agent for the collection of child support payments. In this case, the Commonwealth collects and distributes money to custodial parents. In the event that individuals do not pay, the Commonwealth reports a receivable; however, they have not provided a service.

This report will focus on the reporting and general processes the Commonwealth uses to collect these receivables. We plan to issue within the next year a second report, which will examine the individual agency and institution practices compared to best practices for granting credit and then collecting the accounts.

We have excluded the amounts due to the Department of Taxation and the Virginia Courts, since many of these amounts arise from statutory obligations taxpayers and others have to the Commonwealth. Both the Department of Taxation and Virginia Courts must handle many of the accounts differently than would a typical business, since there are statutory processes which they must follow.

The Commonwealth's remaining receivables are from several sources including the federal government for education and transportation, federally and State funded health care programs, unemployment, food stamp and Temporary Aid for Needy Families overpayments, tuition and fees, and child support payments due to custodial parents. In addition, the Commonwealth also reports interagency receivables which represent money owed between state agencies.

The Code of Virginia requires state agencies and institutions to take all appropriate and cost-effective actions to aggressively collect all accounts receivable owed to the Commonwealth. In addition, the Code of Virginia requires the Department of Accounts, in conjunction with the Office of the Attorney General, to oversee, report on, and monitor the Commonwealth's accounts receivable program. State agencies and institutions are responsible for establishing internal policies and procedures for the management and collection of accounts receivable that are in accordance with regulations adopted by the Department of Accounts and the Office of the Attorney General. Currently, several state agencies and private collection agencies are involved in the administration and collection of the Commonwealth's accounts receivables.

This report reviews the current accounts receivables administration and collection process and offers recommendations for improving those processes.

ANALYSIS OF ACCOUNTS RECEIVABLE AS OF JUNE 30, 2008

At June 30, 2008, gross accounts receivable totaled \$1.4 billion, excluding Taxation and Courts. For purposes of this report, we have identified 13 agencies whose gross receivables totaled \$1.3 billion, approximately 89 percent of the Commonwealth’s total gross receivables. Receivables for the remaining 76 agencies were 11 percent of the Commonwealth’s total receivables and we have combined their amounts into the *remaining agencies* category.

Below, we categorize the account receivables by type, which reflect the activities that caused the amounts due to the Commonwealth or others. To understand the nature, collectability and ownership of the amounts, it is important to understand why someone owes the Commonwealth these moneys.

Following the table below is a description of each type of receivable, the agency or agencies responsible for collection, and the use of the amounts. We have addressed these types of receivables based on the greatest amount owed to the Commonwealth.

Table 1:

Accounts Receivable By Types

Federal Reimbursement Grants	\$ 305,066,832	
Patient Services	295,789,776	
Child Support Enforcement	288,871,096	
Unemployment—Taxes Due	74,393,678	
Interagency Receivables	67,558,665	
Provider Overpayments	49,893,894	
Lottery Sales	48,341,989	
Medical Assistance—Third Party Liability	33,991,532	
Tuition and Fees	19,914,046	
Unemployment—Benefit Overpayments	19,709,043	
Transportation—Project Settlements	15,259,262	
Higher Education—Private Grants	14,451,256	
Higher Education—Student Loans	12,724,256	
SNAP and TANF Overpayments	11,287,102	
Higher Education—Miscellaneous	9,657,663	
E-911 Wireless Service Providers	8,377,279	
Transportation—Miscellaneous	6,690,404	
Transportation—Damage Payments	6,440,657	
Transportation—Locality Payments	5,361,292	
Other	<u>1,240,222</u>	
Subtotal	1,295,019,944	(89%)
Remaining Agencies	<u>165,137,629</u>	(11%)
Total	<u>\$1,460,157,573</u>	

Source: Accounts’ June 30, 2008 Web-based Accounts Receivables System and supplemental information provided by agencies.

As previously mentioned, we have excluded Taxation and Court receivables from this analysis because of the nature of their receivables. A large portion of Taxation receivables results from tax assessments that do not necessarily represent a valid tax liability. Taxation levies assessments using historical tax return data which, in some cases, does not represent the taxpayer's current residential status. Therefore, a large portion of the receivables are uncollectible because there may be no tax due.

We have excluded Court receivables because the receivables represent unpaid court fines and fees, which are highly uncollectible by their very nature. In addition, some court fines and fees are restitution payments or due to individuals and, therefore, will not result in resources for the Commonwealth to spend. The Virginia Constitution requires the Courts to deposit the remainder, when collected, into the Literary Fund.

Federal Reimbursement Grants

State agencies receive grants from the federal government and, in most cases, these grants require agencies to pay for expenses up front and subsequently request reimbursement from the federal government. These receivables generally are not past due and require no collection process other than billing the federal government in the normal course of business. When this process occurs, the funds received from the federal government are not new revenue streams, rather the funds are reimbursing agencies for expenses already incurred.

The following state agencies have the majority of the receivables from federal reimbursement grants.

Department of Education -- public education

Department of Transportation -- transportation projects

Department of Social Services -- social service payments to individuals and for services provided individuals

In addition, the University of Virginia, Virginia Commonwealth University, and Virginia Polytechnic Institute and State University (Virginia Tech) receive federal reimbursement grants for research and other university activities and programs.

Patient Services

Patient services accounts receivables primarily result from medical services provided by the University of Virginia Medical Center (Medical Center) and the Department of Mental Health Mental Retardation and Substance Abuse Services (Mental Health). In the case of the Medical Center, approximately \$166 million of the receivables are due from insurance providers, including private insurance and Medicare, while approximately \$30.5 million is due from individuals. The Medical Center includes Medicare cost settlements in patient services receivable totals, which represent the difference between the amount the Medical Center received from Medicare based on a predetermined rate and the actual services provided. For fiscal year 2008, the predetermined rate

was more than the actual services provided, thus the Medical Center owed Medicare approximately \$46 million. Rather than submitting a payment to Medicare, the Medical Center will allow Medicare to reduce the predetermined rate for fiscal year 2009 to reflect the amount owed by the Medical Center.

However, in the case of Mental Health approximately \$62 million of its receivables are due from medical services provided that will be reimbursed by Medicaid, using both state and federal funds. Once the Medical Center and Mental Health collect the receivables, they will use the funds to continue to provide ongoing medical services to patients.

Child Support Enforcement

Child support enforcement receivables represent all child support payments due from the non-custodial parent, whether current or past due. Social Services collects child support payments and distributes them to custodial parents. Social Services reports a receivable as payments become due from the responsible person; the receivable includes all arrearage amounts due to the custodial parent. Most of the receivables are due to the custodial parent and are not available for the Commonwealth's use.

In some instances, the amount due from the responsible person will reimburse Social Services for past benefits received by children and the custodial parent. In these cases, Social Services uses the majority of the collections to reimburse the federal government for their share of the benefits paid to the individuals. The Commonwealth's portion of the amount collected is nominal.

Unemployment—Taxes Due and Benefit Overpayments

The Virginia Employment Commission (Commission) collects unemployment taxes from businesses operating in the Commonwealth. The Commission reports a receivable for the amount of unemployment taxes owed by businesses. This amount includes taxes due from businesses that are no longer operational, in which case the receivable may be uncollectible. In addition, the Commission reports a receivable for instances where unemployment benefits have been overpaid to individuals. Once taxes and overpayments are collected, they will become a part of the Unemployment Insurance program for the Commission to use in providing unemployment benefits to unemployed citizens of the Commonwealth.

Interagency Receivables

Interagency receivables represent instances where one state agency owes an amount to another state agency for goods or services. The interagency receivable balance at June 30 includes \$29 million due to the Department of Human Resource Management for worker's compensation insurance premiums billed, but not due until fiscal year 2009, and represent the normal billing cycle for these premiums.

Another large portion, \$23.9 million, is due to the Virginia Information Technologies Agency (VITA) for information technology services it provides to agencies. VITA uses most of the funds it collects to pay vendors, such as Verizon and Northrop Grumman, for services.

Provider Overpayments

The Department of Medical Assistance Services (Medical Assistance) reports a receivable for overpayments made to service providers for patient care. Overpayments arise from Medical Assistance performing billing or service audits of the providers. In most of these cases, Medical Assistance will use the receivable as an off-set to the provider's next claim for services rendered.

Lottery Sales

The Virginia Lottery (Lottery) reports receivables due from retailers for lottery sales. On a weekly basis, Lottery collects funds from retailers for lottery sales. Thus, lottery receivables will vary throughout the year and this process is a part of the agency's normal sales cycle and collecting the receivable does not represent additional resources for the Commonwealth.

Medical Assistance - Third Party Liability

Medical Assistance also reports receivables for medical expenses that they have paid for which they are attempting to be reimbursed. Receivables may be due from individuals, responsible family members, or health or accident insurance. Any funds collected are reimbursement for expenses previously incurred.

Tuition and Fees

Tuition and fees receivables represent receivables reported by Institutions of Higher Education and result from the normal billing cycle of the institutions for both the current summer and upcoming fall semesters as well as previous sessions. For purposes of this report, the amount of tuition and fee receivables only includes amounts due to University of Virginia, Virginia Tech, and Virginia Commonwealth University. Funds collected are part of the Higher Education Institution's normal revenue and appropriation funding stream for operations.

Transportation—Project Settlements, Miscellaneous, Damage Payments and Locality Payments

Transportation has several different categories of receivables, which we will discuss in the order shown above. Project Settlement receivables arise from contractual disagreements, other inspection questions and other contract actions in which one of Transportation's contractors owes the department funds. Amounts collected go into the Commonwealth Transportation Fund for future projects.

Miscellaneous receivables are amounts due from the Smart Tag vendor for customer collections or customer charges pending transfer from other states. Other amounts include the amount of repayment for tuition reimbursements from terminated employees who have not fulfilled

contractual commitments. Additional amounts include permit refunds, where Transportation obtained permits from a third party and does planning work for a special permit, which the applicant canceled, but for which Transportation is still entitled to recover its costs.

Transportation also reports as receivables the amounts it incurs in repairing damage to guardrails and bridges caused by motorists. Transportation also does construction and repair work for localities, which reimburse Transportation for its cost, which Transportation records as an amount due from localities. Most of the collections of the various Transportation receivables represent reimbursement of costs incurred.

Higher Education—Student Loans, Private Grants and Miscellaneous

Higher Education Institutions have the ability to provide direct loans to students. Thus, the higher education student loans represent the amount of funds loaned directly from the university to the students. Higher education private grants receivable represents funds received from private donors that the university uses to issue loans to students to cover higher education costs. In addition, a portion of the private grants represent funds owed by private sponsors as reimbursement for costs already incurred to perform research or other activities. Higher education miscellaneous receivables consist of returned checks and billings for a variety of services including dining, housing and library services. In most instances, when receivables are collected they cover costs already incurred by the university or they fund university operations and programs and repayment of debt. For purposes of this report we have reviewed and summarized above the higher education receivables at the University of Virginia, Virginia Commonwealth University, and Virginia Tech.

SNAP and TANF Overpayments

Social Services records a receivable for the amount of SNAP (formerly known as the food stamp program) and TANF benefits that individuals have received as either an overpayment or owe if they have inappropriately obtained these benefits. Most of the receivable amount reported relates to recipients who inappropriately obtained benefits.

The amount shown is the amount of benefits obtained by individuals over more than 30 years, and, as a result, almost 95 percent of the balance is uncollectible. If Social Services collected the balances, the collections would reimburse the original source of funding, which is primarily the federal government, with some benefits to the Commonwealth.

E-911 Wireless Service Providers

These receivables represent funds due from a wireless service provider, which goes into a special non-reverting fund. The Code of Virginia, Section 56-484.17, stipulates how to use the collections.

ACCOUNTS RECEIVABLE AGING

Accounts receivable range from being one day to over one year past due. Seventy percent of the \$1.4 billion in receivables reviewed are not past due. Approximately 30 percent of the receivables are past due and the majority of the past due receivables belong to Social Services. Of the \$175 million of receivables over one year past due, \$104 million or 63 percent, belongs to Social Services. Most of these receivables relate to past due child support payments and overpayments of food stamp and TANF benefits. Table 2 below shows the age of the receivables reviewed in this report. Appendix A shows the aging by agency.

Table 2:

Accounts Receivable Aging Summary

Age	Amount	Percent of Balance
Current	\$1,015,241,475	70%
1-30 days	107,163,862	7%
31-60 days	47,285,800	3%
61-90 days	27,550,640	2%
91-120 days	18,612,346	1%
121-180 days	25,631,482	2%
181-1 year	43,399,843	3%
Greater than 1 year	175,272,125	12%
Total	\$1,460,157,573	100%

Source: Accounts' June 30, 2008 Web-based Accounts Receivable System

CURRENT PROCESS FOR ADMINISTRATION OF ACCOUNTS RECEIVABLE

Department of Accounts

The Department of Accounts (Accounts) prescribes accounts receivable policies, procedures, and guidelines; provides technical assistance to agencies and institutions regarding the accounting for receivables and proper revenue recognition policies; monitors and analyzes the receivables of agencies and institutions; and, finally, prepares quarterly and annual reports of the Commonwealth's receivables. Additionally, Accounts periodically holds financial reporting training seminars, which cover a range of topics, including accounts receivable.

The main source for Accounts policies and procedures concerning accounts receivable is the Commonwealth Accounting Policies and Procedures Manual (CAPP). This manual provides guidelines to assist agencies in developing procedures to account for, report, manage, and collect receivables in accordance with the Virginia Debt Collection Act.

State Agencies and Institutions

State agencies and institutions must develop systems that are adequate to properly account for their receivables. In addition, on a quarterly basis, agencies report receivables, their age, collection status, and funding source to Accounts. Accounts collects this information using a web-based accounts receivable application database. Institutions also send Perkins loans status reports to Accounts and develop and implement policies and procedures that adhere to the collection guidelines established by the Attorney General and the Comptroller.

The General Assembly has authorized various state entities to collect specific receivables of the Commonwealth including the Department of Taxation, the Department of Social Services' Division of Child Support Enforcement, and the Commonwealth Attorneys. In addition, in 2006, the General Assembly gave the two state teaching hospitals, Virginia Commonwealth University Health System Authority and University of Virginia Medical Center, the option of collecting their accounts receivable by contracting with private attorneys and collection agencies or by using the Division of Debt Collection. The teaching hospitals have the ability to independently compromise, settle, and discharge accounts receivable claims. In addition, the General Assembly has authorized the Division of Debt Collection to use private collection agencies for smaller debts.

Office of the Attorney General

Section 2.2-518 of the Code of Virginia makes the Office of the Attorney General responsible for providing all legal services and advice related to the collection of the Commonwealth's accounts receivable, adopting necessary policies and procedures for legal issues pertaining to all accounts receivable, and the litigation of past-due accounts receivable. Annually, the Attorney General also reports on those agencies and institutions that are not making satisfactory progress towards implementing the provisions of the Virginia Debt Collection Act. The Division of Debt Collection of the Office of the Attorney General provides debt collection services on behalf of all state agencies.

When fully staffed, the Division employs 24 people, consisting of six attorneys, nine claims representatives, one paralegal, three financial, and five administrative positions. Currently, the Division is actively pursuing collections for 49 agencies. The Division relies on each agency to abide by the Code of Virginia guidelines when submitting past due receivables for collection. Agencies send cases to the Division through the mail in hard copy format or by email. As a part of the Division's attempt to collect on past due receivables, the Division may refer matters to private attorneys appointed by the Attorney General on a contingency fee or hourly basis. When assigning matters to private attorneys, the Division takes into account: venue, claim amount, special legal expertise required, and, on rare occasions, temporary case load management. The private attorneys must keep the Attorney General advised regarding the progress of all matters referred. In contingency fee arrangements, if the private attorneys do not collect anything on the debt, they receive no payment.

The Division manages its referrals with an off-the-shelf case management system, which the Division customized to accommodate its requirements. The system tracks debtor information, account history and financial activity and generates documents such as garnishments, warrants, and

demand letters. The system is a standalone system and does not interface with Accounts web-based accounts receivable application database. The Division uses several external databases maintained by other state agencies to locate debtors and their assets, including databases at the Department of Motor Vehicles, Virginia Employment Commission, Department of Taxation, Virginia Commonwealth University Health System, and State Corporation Commission. In addition, they use two commercial databases--Equifax for credit information and LexisNexis Accurint module for locator and real property ownership information. Biannually, the Division of Debt Collections provides agencies with a detailed debtor balance report which reports the debtor's name and the debtor's balance.

During 2008, the Division had 10,774 accounts totaling \$141 million. Gross collections during fiscal year 2008 totaled \$9.7 million.

Department of Taxation

Pursuant to Section 58.1-1803 of the Code of Virginia and Section 4-5.02(d)(3) of the 2008 Appropriation Act, the Department of Taxation (Taxation) is exempt from participating in the debt collection practices of the Office of the Attorney General; therefore, they can hire collection agencies and collectors, including attorneys. The most significant receivables Taxation collects are those accounts that rise from individual income taxes. Taxation utilizes an outside collection agency, Taxation district office personnel, and an in-house delinquent collections unit to assist in collecting overdue accounts receivable.

Taxation's collection system has a process for assigning overdue accounts to the outside collection agency. The outside collection agency employs two subcontractors. Taxation has the authority to use collections tactics that include use of Memorandum of Liens that act as a judgment against a taxpayer's real property and personal assets; issuance of a bank account lien or wage garnishment without first obtaining judgment; converting business tax liability into personal liability of responsible officers; padlocking businesses; and seizing assets without judgment. Further, Taxation can use the United States Department of Treasury's offset program to submit state income tax debt for offset against debtors' federal income tax refunds. Taxation also has a Court Debt Collection Office that collects delinquent court fines and fees for 263 courts. The remaining courts place delinquent court fines and fees with private attorneys, collection agencies, city or county treasurers, local governing bodies, or in-house programs run by the Commonwealth Attorneys.

Taxation and Accounts also administer the Commonwealth's Debt Setoff Collection Act, which all branches of state government and localities can use to intercept payments both for tax refunds and other amounts paid by the Commonwealth to individuals and vendors, who owe either the state or localities money. The Setoff Debt Collection program requires that the entity owed money report the amount owed to Taxation, who will notify the entity that an individual is receiving a tax refund. The entity can place a hold on the refund and then take the appropriate steps to collect their receivable from the refund. Accounts uses this same process to intercept amounts due to Commonwealth agencies and institutions from payments to vendors and individuals for goods and services.

Department of Social Services, Division of Child Support Enforcement

Section 63.2-1901 of the Code of Virginia charges Social Services to “promote the efficient and accurate collection, accounting and receipt of support for financially dependent children and their custodians,” which is the responsibility of the Division of Child Support Enforcement. The Code of Virginia gives Child Support Enforcement the ability to issue various support orders, subpoenas for financial records of noncustodial parents, and to summons noncustodial parents to appear for questioning in the course of support establishment or enforcement activities. In order to achieve this, Child Support Enforcement contracts with private entities to facilitate the collection of child support arrearages and to perform certain administrative functions in the field and in the central office. The Attorney General provides and supervises legal services in child support enforcement cases to establish, obligate, enforce, and collect child support.

Commonwealth Attorneys

Commonwealth Attorneys render collection services or, if determined to be impractical or uneconomical, contract with private attorneys or private collection agencies, enter into an agreement with a local governing body or a county or city treasurer, or use Taxation. Commonwealth Attorneys collect fines, costs, forfeitures, and penalties as reported to them by the circuit and district court clerks.

Collection Efforts

In order to fulfill the requirement to aggressively collect all receivables, state agencies handle collection responsibilities in-house or submit receivables to the Division of Debt Collection or private collection agencies, including private law firms. Agencies also use credit reporting bureaus, garnishments, liens, judgments, and debt set-off programs to collect on past due accounts. Debt set-off programs allow the Commonwealth to apply, in whole or in part, Virginia individual income tax refunds against a past due indebtedness due to the State, a locality, or a court. In addition, the Commonwealth may withhold payments to a debtor in full or in part to satisfy a debt owed.

The Division of Purchases and Supply has awarded a statewide contract for collection services for accounts receivable; however use of this contract is voluntary for agencies and institutions that currently have contracts established through competitive procurement procedures. Only agencies that do not have a contract and are unable to use in-house procedures are required to use the above referenced contract or establish a contract through competitive competition.

According to Section 2.2-4806 of the Code of Virginia, agencies must forward accounts receivable that are at least \$3,000 and 59 days past due to the Division of Debt Collection. Agencies must send all accounts receivable under \$3,000 and more than 59 days past due either directly to a private collection agency or to the Division of Debt Collection. However, if the federal government sets the collection requirements, an agency or institution may elect to retain the accounts in house longer than 59 days. Likewise, where an agency has procedures in place to secure payment or the debtor is making satisfactory periodic payments, the agency may elect to retain the claim. There is no maximum age at which an agency must turn over a receivable to the Division of Debt Collection and most receivables are older than 60 days. Agencies can exhaust internal and private collection

agencies prior to sending the claim to the Division; therefore in some cases when the agency submits a claim to the Division, it is already significantly over 60 days past due and chances of collectability may be low.

Table 3 below shows who is responsible for collecting receivables over 60 days past due.

Table 3:

Total Collection Efforts for Receivables Over 60 Days Past Due

Collection Method	Amount
Retained by State Agencies	\$251,028,624
Private Collection Agencies	16,271,406
Division of Debt Collection	23,166,405
Total	290,466,435

Source: Accounts' June 30, 2008 Web-based Accounts Receivable System

Each private collection agency remits payments and reports collection totals to the respective agency. State agencies notify the Division, if they receive payment for a past due accounts previously submitted to the Division for collection. In addition, it is the state agency's responsibility to report receivable information to Accounts to be included in the Comptroller's Quarterly Report on Statewide Financial Management and Compliance (Quarterly Report).

Accounts Receivable Reporting

At the end of every quarter, Accounts requires state agencies that generate receivables to upload their receivable summary information to its Accounts Receivable On-Line Application. Agencies that do not generate receivables must submit an annual certification stating that they have no receivables and do not anticipate generating receivables. Agencies retain documentation of balances reported in their financial statements. We detail the information agencies submit to the Accounts Receivable On-Line Application in Appendix B at the end of this report.

Accounts then performs statistical analysis, looking for any unusual items or trends as a way to monitor how agencies manage their receivables. The Quarterly Report includes trend data such as the percentage of gross receivables over 60 days past due and percentage of collections to billings. Additionally, the Quarterly Report details collectible receivables by fund as well as a summary of receivables by source. At year-end, Accounts analyzes the receivable attachments prepared by state agencies and institutions and reconciles them to the quarterly information provided through the On-Line Application to ensure agreement.

RECOMMENDATIONS FOR IMPROVEMENT

There is a significant opportunity for the Commonwealth to improve the periodic reporting of accounts receivables. Below, we discuss our recommendations for improvement.

Improve Accounts Receivable Analysis and Reporting

While the Quarterly Report contains a significant amount of detail and analysis of the Commonwealth's receivables, more comprehensive information on agency receivables would enable a user to understand the nature of the Commonwealth's receivables and whether collections would result in additional funding for the Commonwealth. In preparing our report, we obtained additional information and detail from agencies in order to identify the composition of their receivables. Further development and clarification of some items would enhance the information, making it more useful for users. As an alternative to expanding the information in the Quarterly Report, Accounts could evaluate whether a different reporting mechanism would be more effective for providing more comprehensive receivables information.

- **Identify current receivables** – The Quarterly Report does not specifically show the Commonwealth's current receivables. The reader can calculate current receivables using information from a number of available charts; however, it may be more meaningful for the reader if Accounts clearly distinguished this information. Highlighting current receivables is important since this represents the amount the Commonwealth is more likely to collect than those amounts already past due.
- **Clarify receivables available for Commonwealth use** – Currently, the Quarterly Report shows collectible receivables without regard to any restriction on the use of collected amounts. For example, the collection of past due Child Support Enforcement funds will provide little in the way of operating funds to the Commonwealth. Further, the collection of federal grants and contract accounts only reimburses for amounts already spent. While management and timely collection of these accounts is important, the current report makes it appear that these collections could provide additional resources to fund the Commonwealth's operations.

Further, the current presentation does not provide an indication of the collection efforts needed to collect funds. Trying to collect SNAP or TANF benefits from someone who inappropriately obtained benefits is a more significant receivables management problem than collecting delinquent federal grants or contracts. Improper benefit collections will potentially include criminal proceedings and may involve someone with little or no assets to make payment. Also, reporting delinquent accounts over a year old is an important measure of collection efforts. However, if an agency such as Social Services cannot write accounts off and the aging category includes accounts up to 30 years old, then the true measure of the collections effort is distorted.

- **Evaluate and expand information reported** – Accounts should evaluate the current report to determine if additional information and explanations would make the report

more transparent. Information in the Quarterly Report and in the web-based accounts receivables system does not provide sufficient detail on the types of the agencies' receivables. While adding more detail and clarification to some of the information reported would prove beneficial, there is also the opportunity to include additional reports that may be beneficial.

The 'Receivable Trend Data' section of the report presents two charts that show the percentage of gross receivables over 60 days past due and collections as a percentage of billings. A chart trending receivables balances over several quarters could help visually demonstrate how different agency business cycles cause a fluctuation in receivable balances due to timing issues. The report includes a brief narrative addressing this issue; however, it may be more useful to see specifically at different agencies their cyclical receivable patterns, especially in the case of higher education institutions.

In addition, the Quarterly Report suggests that agencies retain the vast majority of receivables over 60 days past due. A chart that shows the total amount of receivables outstanding with a balance of \$2,999 or less versus those with a balance of \$3,000 or greater for each of the agencies with the highest receivables balances would help clarify whether agencies are following the Code of Virginia's requirement to submit overdue receivables to the Office of the Attorney General. This could also be useful for the Attorney General's office to reference, so that they can ensure that agencies are submitting all past due receivables to them in accordance with Code of Virginia requirements.

- **Expand information on Taxation and the Courts** – Currently, the Quarterly Report provides a brief explanation of why Accounts has excluded Taxation and Courts, despite the fact that their receivables make up a large portion of the Commonwealth's receivables. Accounts should provide a more thorough explanation of why the report excludes these agencies, as well as, include further detail on what makes up these receivables.

For example, Taxation receivables are due from individuals and corporations and in some instances the receivables use assessments that are not actually due to the Commonwealth. Similarly, the description of the court receivables does not distinguish whether the amounts are for fees or restitution payments, or if they could be due to individuals as a result of a judgment, in which case they are not technically Commonwealth receivables. Accounts could expand the discussion of the likelihood of collecting these agencies receivables to explain why it is unlikely that the Commonwealth will collect the majority of these receivables.

- **Clarify Interagency Receivables** – The Quarterly Report includes interagency receivables in the "Collection Receivables by Fund" chart. It is unclear if interagency receivables are included or excluded from the remaining charts and graphs included in the report. Since interagency receivables represent funds due between state

agencies, it would be useful to present a summary of amounts that are due between agencies and an explanation of what these receivables are and why they are past due.

- **Expand receivables explanations** – Currently, the Quarterly Report includes a section entitled “Commonwealth Receivables Analysis” that describes agency collection programs and related trend information. Accounts should consider expanding this section to include an explanation of what the receivable balances consist of and the probability of collection. While some agency’s sections include what the receivables consist of, the report does not include this information for all agencies and the report does not address the probability of collecting the receivable.

In addition, this section of the report currently summarizes what the agency does and it also summarizes the total receivables for the current period in relation to the prior period. Accounts should provide more detail explaining why variances have occurred from one period to the next and include information on what the agency’s collection program entails.

- **Clarify instructions to agencies** – Accounts provides instructions regarding receivables in the CAPP Manual and in the Financial Statement Directives. Accounts should review instructions to ensure consistency with both instructions. This consistency will ensure that agencies are reporting the same information for both processes. Currently, some agencies report information differently for the quarterly receivables submission and for the financial statements. Additional guidance should clarify what agencies should include or exclude when they report receivables in the quarterly receivables submission versus receivables reported for financial statement preparation.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

May 7, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the Collection of Commonwealth Accounts Receivable and are pleased to submit our report entitled **Collection of Commonwealth Accounts Receivable**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our objectives in our audit of the Collection of Commonwealth Accounts Receivable were to:

1. Determine the roles of central agencies in the receivables process including the Attorney General - Division of Debt Collection, Department of Accounts, and Department of Taxation.
2. Determine the various classes of receivables collected by the various Commonwealth agencies and institutions.
3. Determine current practice for utilizing in-house collection efforts versus outsourcing the collection of receivables.
4. Evaluate current methods for reporting receivables.
5. Determine best practices agencies should follow for managing and collecting their receivables including extending credit, billing and collection, appropriate reporting, and determining the collectability of each receivable class.

6. Make recommendations for the improvement of the management and reporting of the Commonwealth's receivables.

This interim report primarily addresses objectives one through four and six, and the final report, due to be issued by December 1, 2009 will address objectives five and six.

Scope and Methodology

In conducting this audit, we researched the Code of Virginia, the Commonwealth Accounting Policies and Procedures Manual, and the Virginia Debt Collection Act for agencies roles in collecting and reporting accounts receivables. We obtained information through correspondence with agencies, reviews of policies and procedures, and reviews of information documented during the agencies individual audits. We obtained receivables balances from the Department of Accounts' web-based accounts receivables system. Agencies provided additional detail regarding the composition of their accounts receivable. We used the detailed information to compile the receivable balances by type.

Summary

The Commonwealth's total accounts receivables are more than \$1 billion excluding the receivables reported by the Department of Taxation and the Virginia Courts. Agencies submit receivable balances to the Department of Accounts via Accounts' web-based receivables systems. The Department of Accounts then uses the information to compile the Comptroller's Quarterly Report on Statewide Financial Management and Compliance. Individual state agencies, the Division of Debt Collections, and private collection agencies are responsible for collecting outstanding receivables.

Based on the results of our review, we recommend that the Department of Accounts improve accounts receivable analysis and reporting to ensure information is informative and useful for users.

Exit Conference and Report Distribution

We discussed this report with the Department of Accounts on May 19, 2009. Their response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

May 20, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
James Monroe Building
101 N. 14th Street
Richmond, VA 23219

Dear Mr. Kucharski,

The Department of Accounts (Accounts) appreciates the opportunity to respond to the interim review of the Commonwealth's accounts receivable report. Your recommendations are appreciated, and Accounts gives them the highest level of importance and consideration as we continue to review and improve our current practices.

While you note the current Quarterly Report contains a significant amount of detail and analysis of the Commonwealth's receivables, we concur that the implementation of your recommendations would provide additional useful information to decision-makers. Some of the information you recommend reporting has been included in our reports in the past. However, in 2003 Accounts was forced to make some difficult choices due to budgetary constraints. One of these choices resulted in reductions in the analysis and reporting of accounts receivable data.

In order to increase the feasibility of enhancing our analysis and reporting as recommended, we plan to reconsider the merits of quarterly versus annual reporting of receivables information in hopes of targeting resources. We will also evaluate differences in agency receivables reporting instructions and modify the requirements as appropriate.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Von Moll".

David A. Von Moll

DEPARTMENT OF ACCOUNTS

David Von Moll, State Comptroller

OFFICE OF THE ATTORNEY GENERAL, DIVISION OF DEBT COLLECTION

William C. Mims, Attorney General

Appendix A

Accounts Receivables Aging by Agency

	<u>Social Services</u>	<u>UVA Medical Center</u>	<u>Transportation</u>	<u>Education</u>	<u>Employment Commission</u>
Current	\$222,515,179	\$121,117,597	\$114,471,554	\$124,890,364	\$53,903,250
30 days	1,077,376	48,358,526	1,468,026	-	1,273,822
31-60 days	1,064,897	22,362,096	3,252,456	-	1,262,779
61-90 days	1,083,930	10,613,128	215,319	-	5,671,241
91-120 days	1,114,765	5,212,337	2,621,974	-	613,110
121-180-days	2,093,860	4,026,954	1,212,077	-	2,787,144
181-1 year	6,365,361	9,996,080	2,068,563	-	6,731,199
Over 1 year	<u>104,361,304</u>	<u>1,610,540</u>	<u>17,057,040</u>	-	<u>21,860,174</u>
Total	<u>\$339,676,672</u>	<u>\$223,297,258</u>	<u>\$142,367,009</u>	<u>\$124,890,364</u>	<u>\$94,102,719</u>

	<u>Medical Assistance Services</u>	<u>Mental Health</u>	<u>Virginia Tech</u>	<u>Lottery</u>	<u>UVA Academic</u>
Current	\$53,903,226	\$30,918,918	\$41,390,649	\$47,865,412	\$25,318,596
30 days	4,283,953	26,939,939	2,786,258	82,209	3,059,089
31-60 days	1,492,642	3,313,932	1,308,573	68,549	1,097,956
61-90 days	1,637,713	2,115,495	507,348	9,316	1,062,363
91-120 days	671,546	2,638,735	452,393	93,854	1,246,694
121-180-days	2,584,212	3,350,799	724,837	20,757	891,407
181-1 year	5,350,826	3,214,700	674,099	54,743	436,250
Over 1 year	<u>14,765,376</u>	-	<u>611,843</u>	<u>147,149</u>	<u>799,141</u>
Total	<u>\$84,689,484</u>	<u>\$72,492,518</u>	<u>\$49,456,000</u>	<u>\$48,341,989</u>	<u>\$33,911,496</u>

	<u>Human Resource</u>			
	<u>VITA</u>	<u>Management</u>	<u>VCU</u>	<u>Total</u>
Current	\$24,905,861	\$29,771,617	\$12,807,457	\$903,779,680
30 days	3,708,437	-	559,386	93,597,021
31-60 days	930,271	448	2,826,983	38,981,582
61-90 days	495,852	8,934	131,413	23,552,052
91-120 days	604,585	643	22,323	15,292,959
121-180-days	180,839	945	7,791	17,881,622
181-1 year	1,005,143	1,500	1,712,678	37,611,142
Over 1 year	<u>949,158</u>	<u>20,817</u>	<u>1,141,344</u>	<u>163,323,886</u>
Total	<u>\$32,780,146</u>	<u>\$29,804,904</u>	<u>\$19,209,375</u>	<u>\$1,294,019,944</u>

Information Included in the Accounts Receivable On-line Application

- Quarterly Activity – includes beginning gross receivables, adjustments, billings, collections, write-offs, and an allowance. Beginning gross receivables are the previous quarter's ending receivables. Adjustments include any changes or corrections to the prior quarter's receivable balances. Billings for goods or services that have been provided, but not paid for. Collections for all payments towards billings or accounts received by the agency. Write-offs are receivables that have been determined to be uncollectible or worthless by management and have been removed from the agency's financial statements. Allowances represent estimates of the amount of gross receivables which are uncollectible.
- Aging of Total Gross Receivables – includes receivables not past due and those past due. Receivables not past due are not presently due for collection or are currently due for collection but have not passed the payment due date. Past due receivables have not been paid by the payment due date. Agencies are instructed to age receivables as of the date they become past due. Past due receivables are aged by the number of days the receivable is past due. Past due categories include 1-30 days, 31-60 days, 61-90 days, 91-120 days, 121-180 days, 181 days -1 year, and over 1 year.
- Included in reporting past due receivables, agencies are to report receivables which are not current assets, thus they are not due and payable for a period exceeding 1 year. In addition, federally sponsored student loans that are related accounts receivables are also reported.
- Collection status of Accounts over 60 days old – includes a summary of who is responsible for collection of these account that are over 60 days old. In-house receivables include receivables that are not currently assigned to a private collection agency or the Division of Debt Collection. Private collection agencies include any business that has been engaged by the agency to collect a past due receivables. According to the CAPP manual private collection agencies may not engage attorneys to collect any of the Commonwealth's debt. Agencies are instructed to disclose the reason why any account over 60 days is not listed as being the responsibility of the Division or a private collection agency.
- Analysis of Uncollectible Debt – includes beginning balance of uncollectible receivables, adjustments, recoveries, write-offs, and discharges. Recoveries include debts collected after they have been written off the agency's financial accounting records. Discharges are compromises and settlements on debt owed to the Commonwealth
- Detail of Collection Efforts on Past Due Receivables – includes the total dollar amount of all receivables activity for the accounts listed at the Division of Debt Collection, Collection Agencies, and items referred to the debt setoff programs.

- Receivables by type – includes a classification of total gross receivables into one of five categories: individuals, private business, interagency, federal government related, or other.
- Receivables by fund – provides a breakdown of receivables according to the fund in which they will be recorded once collected.