



**FINANCIAL AUDIT DIVISION REPORT**

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# **Accounts Receivable and Debt Collection Processes**

## **Internal Controls and Compliance Audit**

**July 1, 2008, through December 31, 2010**

**November 10, 2011**

**Report 11-25**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 10, 2011

Representative Michael Beard, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

James Schowalter, Commissioner  
Department of Management and Budget

Myron Frans, Commissioner  
Department of Revenue

This report presents the results of our internal controls and compliance audit of the state's accounts receivable and collection processes for the period July 1, 2008, through December 31, 2010. Our audit scope included the departments of Management and Budget, Revenue, Administration, and Human Services, the Pollution Control Agency, and the State Court Administrator's Office for the management and collection of receivables.

The audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Tracy Gebhard, CPA (Auditor-in-Charge), assisted by Kayla Borneman, CPA, Lindsay Tietze, CPA, and Reidar Gullicksrud.

This report is intended for the information and use of the Legislative Audit Commission and the management of the departments of Management and Budget, Revenue, Administration, and Human Services, the Pollution Control Agency, and the State Court Administrator's Office. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 10, 2011.

We received the full cooperation of the departments of Management and Budget, Revenue, and the other agencies included in our scope, and we thank them for their assistance.

James R. Nobles  
Legislative Auditor

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# Report Summary

## Conclusion

The internal controls at the Department of Management and Budget were generally adequate to ensure that state agencies reported complete, prompt, and accurate accounts receivable information; however, the department did not always comply with its policies.

The internal controls at the Department of Revenue's Collection Division were adequate to ensure it properly recorded, pursued, and deposited the collection of debt and remitted the correct amount of debt collected to the applicable funds and referring agencies.

Except for the Pollution Control Agency and the State Court Administrator's Office, the internal controls at the state agencies we reviewed were generally adequate to ensure that they reported complete, prompt, and accurate accounts receivable information to the Department of Management and Budget.

Except for the Pollution Control Agency, all of the agencies we tested generally had adequate internal controls to ensure they pursued the collection of accounts receivable and submitted past due accounts receivable to the Department of Revenue's Collection Division, as required by state policy.

For the items tested, except for the Pollution Control Agency, the agencies we tested generally complied with significant finance-related legal requirements. The Pollution Control Agency did not comply with significant finance-related legal requirements for the items tested.

The findings in our report further explain the exceptions noted above.

## Key Findings

- The Department of Management and Budget did not provide sufficient oversight and guidance to state agencies for their accounts receivable. ([Finding 1, page 9](#))
  - The Pollution Control Agency did not design, implement, and monitor fundamental internal controls over its receipts process. ([Finding 2, page 11](#))
  - The Pollution Control Agency did not properly record, document, and monitor its accounts receivable. ([Finding 3, page 13](#))
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## Audit Objectives and Scope

### Objectives

- Internal Controls
- Legal Compliance

### Scope

- Accounts receivable and collection functions for several state agencies from July 1, 2008, through December 31, 2010
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## Overview

As of June 30, 2010, the State of Minnesota reported approximately \$3 billion of accounts receivable in its audited financial statements. With the current economic conditions and the state's significant budget challenges, it is increasingly important for the state to accurately identify the amount it is owed and actively pursue the collection of receivables. This audit examined the adequacy of the state's internal controls to ensure it accurately reported and actively pursued the collection of its accounts receivable during the timeframe of the audit.

The Department of Management and Budget provides oversight of the state's decentralized accounts receivable and collection processes to state agencies. State statute requires the commissioner of the department to establish internal guidelines for the recognition, tracking, reporting, and collection of debts owed the state.<sup>1</sup> The department established policies and procedures over the state's accounts receivable and required state agencies to submit accounts receivable data to the department quarterly.

In the course of their operations, state agencies impose taxes, fees, penalties, fines, or charge for services they provide. Failure on the part of any party to make payment in full results in an amount owed to the state and an "accounts receivable." Agencies are responsible for managing their receivables and pursuing collection of the receivables. State policy establishes the collection process agencies are required to follow.<sup>2</sup> The process requires agencies to contact the debtor at least every 30 days through invoices, letters, or phone calls. State statute and policies require agencies to submit receivables (except for child support receivables) that are 121 days past due and meet specific requirements to the Department of Revenue's Collection Division.<sup>3</sup>

For child support receivables, the Department of Human Services is not required to follow state policy or refer the debt to the Department of Revenue's Collection Division. Instead, the department follows state statutes and its internal policy for collection.<sup>4</sup> The department uses a variety of methods to locate debtors, such as address searches and correspondence with federal agencies. In order to collect on a debt, the department uses enforcement remedies, such as wage garnishment; bank account levy; driver's, recreational, and occupational license suspension;

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<sup>1</sup> *Minnesota Statutes* 2010, 16D.03.

<sup>2</sup> Department of Management and Budget Policy 0505-01.

<sup>3</sup> *Minnesota Statutes* 2010, 16D.04 and the Department of Management and Budget's policy noted in footnote 2.

<sup>4</sup> *Minnesota Statutes* 2010, 518A.

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and credit bureau notification. An outstanding receivable remains open until fully collected, settled, or a new court order is issued.<sup>5</sup>

The Department of Revenue's Collection Division uses a variety of tools to collect receivables. For example, the division uses revenue recapture, as stated in state statute and policy.<sup>6</sup> Revenue recapture allows the division to apply a debt to the amount of the debtor's tax refund or lottery winnings. The division can also seize assets and property, establish liens, garnish bank accounts, create payment plans, make settlements, etc. If, after five years, the division has not collected an outstanding receivable, it remits it back to the referring agency for write-off or submission to a collection agency.

With the exception of the Department of Revenue's Collection Division, most receivable management and collection activities are decentralized through the state agencies. In order for the Department of Management and Budget to provide statewide oversight of the decentralized receivable management process, state policy (in accordance with state statute) requires agencies to report their accounts receivable information quarterly to the Department of Management and Budget.<sup>7</sup> Agencies must report certain accounts receivable information, including an aging of their accounts receivable, amounts written off greater than \$5,000, and any past due accounts they submit to the Department of Revenue's Collection Division or another collection agency. For state agencies that do not have accounts receivable, the policy requires them to annually certify that information to the Department of Management and Budget instead of submitting the quarterly reports.<sup>8</sup>

## Objective and Scope

The objective of our audit of the state's accounts receivable and collection functions was to answer the following questions:

- Did the Department of Management and Budget have adequate internal controls to ensure that state agencies reported complete, timely, and accurate accounts receivable information?<sup>9</sup>
- Did the Department of Revenue's Collection Division have adequate internal controls to ensure it properly recorded, pursued, and deposited the collection of debt? Also, did the agency remit the correct amount of debt collected to the applicable funds and referring agencies?

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<sup>5</sup> A court order establishes legal child custody and support payments.

<sup>6</sup> *Minnesota Statutes* 2010, and Department of Management and Budget Policy 0506-05.

<sup>7</sup> *Minnesota Statutes* 2010, 16D.03 and Department of Management and Budget Policy 0503-01.

<sup>8</sup> Department of Management and Budget Policy 0503-01: Managing and Reporting Accounts Receivables.

<sup>9</sup> Our audit focused on the Department of Management and Budget's responsibility to oversee state agencies' accounts receivable and collection processes, not on its ability to accurately report accounts receivable amounts in the state's Comprehensive Annual Financial Report.

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- Did the agencies we tested have adequate internal controls to ensure they reported complete, timely, and accurate accounts receivable information to the Department of Management and Budget?
- Did the agencies we tested have adequate internal controls to ensure they pursued the collection of accounts receivable and submitted past due accounts receivable to the Department of Revenue Collection Division, as required by Department of Management and Budget Policy 0505-01?
- Did the agencies we tested comply with significant finance-related legal requirements?

Our scope included accounts receivable amounts from July 2008 through December 2010. As of December 31, 2010, state agencies reported accounts receivable totaling approximately \$3.7 billion and an offsetting allowance for doubtful accounts totaling about \$1.7 billion. Based on the agencies' reports, approximately 45 percent of the total related to child support receivable, 31 percent related to taxes receivable, and 24 percent to all other types of receivables.

## Methodology

We examined the internal controls at the Department of Management and Budget because of its statewide oversight responsibilities. We tested controls at the Department of Revenue because its Collection Division serves as a central collection agency for the state and because the department had a significant amount of accounts receivable related to taxpayer debt. We also tested the controls at a sample of state agencies to assess how well those agencies determined, assessed, and collected their accounts receivable. We selected our sample based on our analysis of the quarterly accounts receivable reports submitted to the Department of Management and Budget for the quarter ended December 31, 2010, and debt collection information submitted to the Department of Revenue's Collection Division as of December 31, 2010. We selected the departments of Human Services and Administration, the Pollution Control Agency, and the State Court Administrator's Office because of the large accounts receivable reported balances. Table 1 shows the selected agencies reported accounts receivable balances, as of December 31, 2010. Accounts receivables for these agencies represented 91 percent of the state's total reported December 31, 2010, accounts receivable.

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**Table 1**  
**Agencies Selected for Testing**  
**Reported Accounts Receivable Balances**  
**As of December 31, 2010**

<u>Agency</u>	<u>Balances as of December 31, 2010</u>
Human Services – Child Support Receivables	\$1,655,624,914
Human Services – All Other Receivables	356,283,090
Revenue – Taxes Receivable	1,133,764,775
Revenue – Other Agency Receivables <sup>1</sup>	202,230,042
Pollution Control <sup>2</sup>	8,188,668
Management and Budget	6,153,975
Administration – Cooperative Purchasing	2,639,448

<sup>1</sup> Other agency receivables include \$98,775,978 related to the District Courts.

<sup>2</sup> The Pollution Control Agency reported receivables to the Department of Management and Budget that included \$7 million in superfund, regulatory penalties, and voluntary investigation and clean up receivables; however, as reported in Finding 3, the agency overstated those receivables.

Sources: Department of Management and Budget's quarterly receivable reports for the quarter ended December 31, 2010, and Department of Revenue's Collection Division.

We interviewed staff at these agencies to gain an understanding of the controls related to accounting for and collection of accounts receivable. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also obtained and analyzed the December 2010 quarterly receivable reports agencies submitted to the Department of Management and Budget to identify any questionable or unreasonable amounts for further review. In addition, we examined samples of accounts receivable balances as of December 31, 2010, and reviewed supporting documentation to test whether the agencies' controls were effective and if the transactions and collection efforts complied with applicable laws, regulations, policies, and procedures.

We conducted the 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 used various criteria to evaluate internal controls and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control - Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.<sup>10</sup> We used state laws and

<sup>10</sup> The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

regulations, as well as policies and procedures established by the Department of Management and Budget and the internal policies and procedures of the other agencies within our scope as evaluation criteria over compliance.

## Conclusion

The internal controls at the Department of Management and Budget were generally adequate to ensure that state agencies reported complete, prompt, and accurate accounts receivable information; however, the department did not always comply with its policies.

The internal controls at the Department of Revenue's Collection Division were adequate to ensure it properly recorded, pursued, and deposited the collection of debt and remitted the correct amount of debt collected to the applicable funds and referring agencies.

Except for the Pollution Control Agency and the State Court Administrator's Office, the internal controls at the state agencies we reviewed were generally adequate to ensure that they reported complete, prompt, and accurate accounts receivable information to the Department of Management and Budget.

Except for the Pollution Control Agency, all of the agencies we tested generally had adequate internal controls to ensure they pursued the collection of accounts receivable and submitted past due accounts receivable to the Department of Revenue's Collection Division, as required by state policy.

For the items tested, except for the Pollution Control Agency, the agencies we tested generally complied with significant finance-related legal requirements. The Pollution Control Agency did not comply with significant finance-related legal requirements for the items tested.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

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## Findings and Recommendations

**The Department of Management and Budget did not provide sufficient oversight and guidance to state agencies for their accounts receivable.<sup>11</sup>**

### Finding 1

The Department of Management and Budget did not monitor state agencies to ensure that they properly accounted for and pursued collection of accounts receivable, as required by state statute and various state policies.<sup>12</sup> The statute required the Department of Management and Budget to establish state policies for the recognition, tracking, reporting, and collection of debts owed to the state, including accounting standards, performance measurements, and uniform requirements applicable to all state agencies.<sup>13</sup> The department established various policies and procedures to assist agencies in the accounting for and collection of receivables, including requiring agencies to report their accounts receivable quarterly to the department. However, it did not use the information reported on the quarterly reports to measure agencies' collection performance, comply with or update these policies and procedures, and ensure all state agencies submitted timely quarterly reports, as follows:

- The department's state policy did not establish performance measurements, such as ratios or trends, as required by state statute.<sup>14</sup> The lack of performance measurements limited the department's ability to provide adequate oversight of state agencies' collection activities. The performance measurements would allow the department to assess whether state agencies are adequately pursuing collection.
- The department did not obtain and periodically review each agency's policies and procedures. The state's policies on receivable collections required the department to have each state agency's current receivable management plan on file, periodically review the plan, and discuss with the agency its progress in collecting receivables or referring delinquent accounts to the Department of Revenue's Collection Division.<sup>15</sup>
- The department did not ensure that all agencies reported their write-offs of accounts receivable and did not review the documentation to ensure proper write-off determinations. State policy required all agencies to report receivables written off to the department and required the

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<sup>11</sup> State agencies include a state office, board, commission, bureau, division, department, authority, agency, public corporation, or other unit of state government.

<sup>12</sup> *Minnesota Statutes* 2010, 16D.03.

<sup>13</sup> *Minnesota Statutes* 2010, 16D.03.

<sup>14</sup> *Minnesota Statutes* 2010, 16D.03.

<sup>15</sup> Department of Management and Budget Policy 0505-01 and 0506-01.

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department to review the write-off determinations to ensure they are reasonable and in the state's best interest.<sup>16</sup>

- The department failed to update the state policy to reflect a change in the collection fees imposed by the Department of Revenue's Collection Division.<sup>17</sup> The policy required the department to review the transactions within the Department of Revenue's Collection Division to ensure proper use of the two-tiered collection cost. In July of 2009, the Collection Division eliminated the use of the two-tiered collection cost, but the department did not update the related policy.
- As of April 2011, 12 state agencies had not reported accounts receivable to the department for the quarter ending December 31, 2010, or certified that they did not have any receivables for fiscal year 2010, as required by state policy.<sup>18</sup>

The department did not adequately review the quarterly reports submitted by state agencies to ensure state agencies submitted accurate information. Had the department assessed whether the submitted information was consistent with its knowledge of agency operations, it may have identified the following errors in the reports agencies submitted for the quarter ended December 31, 2010:

- The department allowed the Department of Human Services to continue to report \$0 as its drug rebate billings rather than have the Department of Human Services estimate the billing amounts. Similar erroneous reporting of drug rebate billings for the quarter ended March 31, 2010, resulted in a \$26.6 million audit adjustment to the state's fiscal year 2010 financial statements.<sup>19</sup>
- The department did not question why the Office of Enterprise Technology, which primarily provides services to other state agencies, did not identify that nearly \$2.7 million of its \$3.9 million reported accounts receivable balance was related to interagency billings; the department's form directs agencies to separately identify interagency receivables.
- The department did not question why the Department of Employment and Economic Development limited its reporting of accounts receivable data to its unemployment benefit receivables. The Department of Employment and Economic Development had other receivables (related to warrant printing, workforce center partnerships, and services for the blind), which, as of June 30, 2011, totaled approximately \$412,000.

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<sup>16</sup> Department of Management and Budget Policy 0507-01.

<sup>17</sup> Department of Management and Budget Policy 0506-07.

<sup>18</sup> Department of Management and Budget Policy 0503-01.

<sup>19</sup> Office of the Legislative Auditor's Financial Audit Division Report 11-02, *Report on Internal Control Over Statewide Financial Reporting*, issued February 18, 2011.

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Department management told us that some of the items we cited were only relevant to fiscal year end reporting and not to the quarter we examined. Neither the state policy nor the form used to report the information to the department clearly identified reporting requirements for interim reports that were different from those at year end. Had the Department of Management and Budget provided sufficient guidance to and oversight of the state agencies, it may have prevented or detected these errors.

### *Recommendation*

- *The Department of Management and Budget should:*
  - *monitor state agencies' reporting and collection of accounts receivable;*
  - *ensure all state agencies submit accurate and timely accounts receivable information;*
  - *comply with state statutes and state policies; and*
  - *review and update state policies for accounts receivable and collections.*

## **The Pollution Control Agency did not design, implement, and monitor fundamental internal controls over its receipts process.**

## **Finding 2**

Although the Pollution Control Agency assessed the risks related to regulatory penalties,<sup>20</sup> superfund, and voluntary investigation and clean up<sup>21</sup> receipts, it did not design, implement, and monitor internal controls to address those risks. Had the agency fully developed a risk assessment, as required by state policy,<sup>22</sup> it could have identified and addressed the following significant control weaknesses and noncompliance with state policies. The following control weaknesses related to the regulatory penalty, superfund, and voluntary investigation and clean up receipting process:

- The agency did not adequately safeguard its receipts. The agency did not prepare a daily log of incoming receipts. Also, employees did not restrictively endorse checks until they prepared the deposit. Without preparing a log of the checks received and restrictively endorsing the checks, checks could be lost or stolen prior to preparing the deposit without the agency's knowledge.

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<sup>20</sup> Regulatory penalties include administrative penalty orders, citations, stipulation agreements, and court orders.

<sup>21</sup> Superfund and voluntary investigation and clean up fines are separate receipt types. Both types include the reimbursement cost to investigate and clean up the damage caused by the release of a hazardous substance.

<sup>22</sup> Department of Management and Budget Policy Number 0102-01.

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- The agency was not securing not public data. The agency photocopied checks for certain divisions. However, it did not redact not public information, such as bank routing and account numbers. Employees without a business need had access to these copies that contained the account information. Employees could use this information to commit fraud against the check writer.
- The agency did not adequately separate incompatible duties for superfund and regulatory penalty receipt types. The person who prepared the bank deposit had access to the enforcement database and superfund spreadsheet (with the ability to delete, write-off, or adjust receivables) and posted the receipt to the state's accounting system.
- The agency did not complete the necessary reconciliations for receipts collected and recorded in its subsystems to the state's accounting system. State policy<sup>23</sup> requires reconciliations of the daily receipt log and bank deposit slip to actual receipts and to the state's accounting system, as well as a reconciliation between monthly deposit records and the state's accounting system. Without these reconciliations, there is no assurance that it collected, deposited, and recorded the correct receipt amount.

Safeguarding receipts, separating receipt duties, and performing key receipt reconciliations are fundamental internal controls to protect receipts from loss or theft. The state's policy on internal controls requires that each agency head identify, analyze, and manage business risks that affect the entity's government services.<sup>24</sup> The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. The agency's failure to design, implement, and monitor internal controls over its receipt process, in part, led to the errors found in the agency's quarterly accounts receivable report, as stated in Finding 3.

### *Recommendations*

- *The Pollution Control Agency should safeguard its receipts by preparing a daily log of receipts collected and restrictively endorsing checks immediately upon receipt.*
- *The Pollution Control Agency should ensure that it protects not public data from unauthorized disclosure.*

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<sup>23</sup> Department of Management and Budget Policy 0602-03.

<sup>24</sup> Department of Management and Budget Policy 0102-01.

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- *The Pollution Control Agency should segregate employees' incompatible duties or develop mitigating controls.*
- *The Pollution Control Agency should complete the receipt reconciliations required by state policy.*

**The Pollution Control Agency did not properly record, document, and monitor its accounts receivable.**

**Finding 3**

Agency management failed to provide appropriate guidance, oversight, and monitoring to ensure it accurately processed and recorded accounts receivable and receipt transactions, and it accurately reported accounts receivable information to the Department of Management and Budget. For the quarter ended December 31, 2010, the agency reported about \$8.2 million of accounts receivable to the Department of Management and Budget; however, the report had significant errors and concerns, totaling about \$6.2 million. Following are examples of the significant errors and concerns:

- The Remediation Division and Fiscal Division overstated the superfund ending accounts receivable balance by \$4.5 million, including \$3 million for which the agency had either reached a settlement with a debtor and did not adjust the accounts receivable balance or did not accurately post payments received to the debtor's account. The remaining \$1.5 million related to amounts either being appealed or disputed by the debtor and should have been reported separately. In addition, the divisions could not support the propriety of superfund receivables adjusted or written off because they did not maintain a record of the transactions.
- The agency's enforcement program reported inaccurate accounts receivable balances for regulatory penalties. The agency reported \$1,775,934 to the Department of Management and Budget, but it had not recorded \$1,098,156 of this amount in its subsystem and did not have documentation to support the transactions. In addition, program staff were unable to substantiate \$197,000 of regulatory penalty adjustments.
- The agency did not report an estimate for allowance for doubtful accounts, resulting in an overstated accounts receivable balance.
- The agency was not able to substantiate \$162,000 in ending receivable balances, \$355,000 in receivables submitted to the Department of Revenue's Collection Division, and \$119,000 of receivable adjustments in its quarterly report.

The Pollution Control Agency lacked adequate policies, procedures, and staff training necessary to have effective internal controls over its decentralized

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accounts receivable process. Without these policies and procedures, the agency was unable to ensure that its divisions consistently recorded, monitored, collected, documented, and reported transactions affecting their accounts receivable balances. Although the agency required division employees to prepare and submit receivable reports to the Fiscal Division, it did not require them to provide any documentation to support the reported amounts. The Fiscal Division certified that the reports were accurate and complete, but did not ensure the financial manager reviewed the reports before submitting them to the Department of Management and Budget, as required by state policy.<sup>25</sup>

Had the agency developed adequate policies and procedures, provided sufficient training, and monitored its staff to ensure that it complied with the policies and procedures, the agency could have prevented or detected most of these errors.

*Recommendation*

- *The agency should design and implement internal controls to ensure it accurately accounts for, adequately monitors, and accurately reports its receivables.*

## **Finding 4**

### **The Pollution Control Agency did not properly manage or actively pursue collection of some outstanding receivables.**

The agency did not actively pursue collection of outstanding accounts receivable for superfund and voluntary investigation and clean up receivables, did not write off uncollectible superfund accounts, and had superfund accounts with due dates as old as 1995. The agency had the following weaknesses:

- The agency did not adequately follow up on any of the eleven superfund or seven voluntary investigation and clean up accounts receivable balances we tested, totaling about \$4.7 million and \$27,000, respectively.
- The agency did not charge interest on any past due regulatory penalty accounts, as required by statute.<sup>26</sup>
- The agency did not refer two of the ten superfund receivable balances tested to the Attorney General's Office,<sup>27</sup> as required by state statute.<sup>28</sup> The agency did not refer five of the seven voluntary investigation and

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<sup>25</sup> Department of Management and Budget Policy 0503-01.

<sup>26</sup> *Minnesota Statutes* 2010, 116.072, subd. 5(c).

<sup>27</sup> Outstanding superfund receivables are required by state statute to be submitted to the Attorney General's Office instead of the Department of Revenue's Collection Division for collection.

<sup>28</sup> *Minnesota Statutes* 2010, 115B.17.

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clean up receivable balances tested to the Department of Revenue's Collection Division in a timely manner, as required by state policy.<sup>29</sup>

In addition, the Pollution Control Agency's accounts receivable management plan did not comply with state policy,<sup>30</sup> and the agency did not implement the plan throughout the agency. Although state policy required agencies to maintain contact with the debtor at least every 30 days, the agency's plan required contact with the debtor at least every 45 days. For 11 of the outstanding superfund accounts we tested, the agency's contact with the debtor exceeded 45 days. That state policy also required agencies to refer receivables 121 days past due to the Department of Revenue's Collection Division and to write-off receivables deemed to be uncollectible.

#### *Recommendations*

- *The Pollution Control Agency should revise its receivable management plan to ensure it complies with the state policy. The plan should include:*
  - *following up on outstanding receivables;*
  - *charging interest to past due accounts;*
  - *referring past due accounts for collection; and*
  - *writing off uncollectible accounts.*
- *The Pollution Control Agency should comply with its revised receivable management plan.*

### **Three agencies allowed employees to have incompatible access to agency subsystems without establishing mitigating controls.**

## **Finding 5**

The departments of Revenue and Human Services and the Pollution Control Agency authorized employees to have access to incompatible business functions within agency subsystems without implementing any mitigating controls. Allowing employees to have incompatible access to business systems increased the risk that errors or fraud could occur without detection and compromised the integrity of financial transactions underlying the accounts receivable at each agency.

Segregation of incompatible duties is a fundamental internal control designed to prevent or promptly detect errors or irregularities from being processed in the accounting system. The state's internal control policy requires separation of incompatible duties so no one employee has control over an entire transaction or process that could result in errors or fraudulent transactions going undetected.<sup>31</sup> If agencies are unable to adequately separate incompatible duties, state policies require them to develop and document their controls designed to mitigate the risk

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<sup>29</sup> Department of Management and Budget Policy 0505-01.

<sup>30</sup> Department of Management and Budget Policy 0505-01.

<sup>31</sup> Department of Management and Budget Policy 0102-01.

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that errors or fraud will not be detected.<sup>32</sup> These controls typically include some analysis and supervisory review of transactions processed by the employees with incompatible access. Agency management should document these mitigating controls and monitor that these controls are performed as designed and are effective in reducing the risks.

The agencies had the following weaknesses in system security access:

- The Department of Revenue did not monitor or segregate incompatible duties for access to two subsystems. The department did not monitor access for the 422 users of its subsystem for the collection of other state agencies. As a result, 44 users had the ability to create and approve certain adjustments to outstanding debt without any independent review or approval. In addition, the department could not provide any documentation, such as an audit trail, to support these online approvals.

The department also did not limit access to its subsystem for taxpayer accounts receivable. Employees could process adjustments without review and approval of that adjustment. Although the department limited the number of employees with adjustment access and required approval for certain types of adjustments, employees with this access could add an adjustment and approve their own adjustment without the approval or review of a different employee.

- The Department of Human Services did not require approval of adjustments to the amount of principal and/or interest owed, including write-offs. The department also did not review adjustments, totaling \$774 million, for child support obligations processed within the subsystem used to manage child support cases. The subsystem required county workers to process balance adjustments and to enter related comments. However, the system did not require approval, so the adjustment automatically processed. The department did not oversee or review the county workers' adjustments and allowed each county to ensure adjustments were reviewed and approved.
- The Pollution Control Agency did not segregate incompatible duties or implement mitigating controls for its enforcement database and superfund spreadsheet. All 52 employees with "write" access to the enforcement database could add, change, or delete any information within the subsystem. One employee had sole access to the superfund spreadsheet used to record receivables. This person had the ability to add, delete, and change data within the spreadsheet. Without any review or supervision, errors or irregularities could occur and not be detected. In addition, the

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<sup>32</sup> Department of Management and Budget Policy 1101-07.

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agency did not resolve a prior audit finding regarding incompatible and inappropriate access within its billing subsystem.<sup>33</sup>

*Recommendation*

- *The agencies cited should eliminate incompatible access to their subsystems, develop and document mitigating controls, and monitor the controls to provide independent scrutiny and review of the receivable and adjustment activity.*

**The Department of Revenue and the Pollution Control Agency allowed employees to have unnecessary access to their subsystems.**

**Finding 6**

The Department of Revenue and the Pollution Control Agency allowed its employees access to their subsystems that was not necessary for the employees' specific job duties. Allowing employees to have unnecessary access to business systems increases the risk that errors or fraud could occur without detection and compromises the integrity of financial transactions underlying the financial statements. The state's internal controls policy requires agencies to only grant access when the employee has a business need for that access.<sup>34</sup>

The following security weaknesses existed:

- The Department of Revenue did not establish sufficient internal controls to monitor employee access to its network and business systems to ensure that it removed or modified users' access immediately upon termination of employment or changes in job duties. As of May 2011, 33 employees had unnecessary access. The department allowed nine current employees to have unnecessary access and manually suspended access to 24 of the 33 employees. If manually suspended access is reinstated, their access would default to the employees' most recent access, which could result in the unnecessary access. Monitoring of access to network and business systems is important when financial reporting relies on the accuracy and propriety of electronic data and the information within those systems includes not public data.
- The Pollution Control Agency allowed all of its employees view access and 52 employees write access to its enforcement database. The database included not public data on open investigations and complaints. The agency could not justify that all of its employees needed to view information contained in this database, or that 52 employees had a business need to update the records in the enforcement database. In addition, the agency did not have controls in place to monitor employee access to ensure that it had granted appropriate access and that it removed

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<sup>33</sup> Office of the Legislative Auditor, Financial Audit Division, Report 09-24, [Minnesota Pollution Control Agency](#), issued July 23, 2009.

<sup>34</sup> Department of Management and Budget Policy 0102-01.

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or modified users' access immediately upon termination of employment or changes in job duties.

*Recommendation*

- *The Department of Revenue and the Pollution Control Agency should promptly delete system access for terminated employees and better monitor employee access to their business systems to ensure that employees only have the access needed to perform their jobs.*

## **Finding 7**

**The State Court Administrator's Office was not able to identify, account for, and report the amount of outstanding receivables to the Department of Management and Budget.**

The State Court Administrator's Office was not able to determine its accounts receivable balance. The Department of Management and Budget provides two options for reporting accounts receivable: complete and submit accounts receivable reports on a quarterly basis; or certify that there are no accounts receivable balances to report. In the absence of an alternative option, the State Court Administrator's Office certified to the Department of Management and Budget that it did not have any accounts receivable. The subsystem<sup>35</sup> used to manage court cases and the corresponding receivables could not generate the information needed to identify, account, and report receivables, in aggregate. However, the courts told us that typically a significant percentage of its accounts receivables were uncollectable and, since the amounts are owed to the state, cities, counties, and crime victims, the entire balance does not represent the state's portion of the receivable. As of June 2011, the courts were working with the system's vendor to solve this problem.

State statute requires state agencies to report quarterly to the commissioner of the Department of Management and Budget the debts owed to them.<sup>36</sup> Without the ability to identify, account, and report receivables, the state's receivable balance may be understated.

*Recommendation*

- *The State Court Administrator's Office should submit accurate and timely accounts receivable information to the Department of Management and Budget.*

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<sup>35</sup> The State Court Administrator's Office uses the Minnesota Court Information System (MCIS) and the Violations Bureau Electronic Systems (ViBES) to manage court cases.

<sup>36</sup> *Minnesota Statutes* 2010, 16D.03, subd. 2.

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November 3, 2011

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
140 Centennial Office Building  
658 Cedar Street  
St. Paul, Minnesota 55155

RE: Accounts Receivable and Collection Processes audit

Dear Mr. Nobles:

Thank you for the opportunity to discuss your findings on the statewide Accounts Receivable and Collection Processes audit. We are committed to strong financial controls and we value suggestions to make our existing processes even stronger.

**Recommendation – Finding 1**

*The Department of Management and Budget should:*

- monitor state agencies reporting and collection of accounts receivable;*
- ensure all state agencies submit accurate and timely accounts receivable information;*
- comply with state statutes and state policies; and*
- review and update state policies for accounts receivable and collection*

**Response:**

The department agrees with and has resolved many of the issues cited on page 10 of the report. In the last year we have updated and re-published all of the statewide policies related to accounts receivable reporting. We have worked and agreed with Department of Revenue on the change from a two-tiered collection approach and have removed outdated language from our policy. Further, we have updated the policy which directs agencies to have a current receivable management plan on file. The policy directs agencies to have a plan on file, but no longer requires them to submit them to MMB. Finally, we agree that we did not include specific guidance to agencies regarding performance measurements such as ratios or trends; we will make that addition with our next revision.

Our policy requires agencies to report collection action taken and statutory justification of receivable write-offs. For most situations, we review agency documentation regarding write-off determinations on a quarterly basis.

Mr. James R. Nobles  
November 3, 2011  
Page 2 of 2

We have made exceptions to the detailed reporting requirements in some situations where a large volume of small dollar amounts justifies an alternate procedure. We will review and reconsider the exceptions that have been granted and make corresponding adjustment to our procedures.

On page 11, some of the reporting elements are needed only for year-end reporting. We have communicated to agencies that other elements are unnecessary for interim quarterly reports.

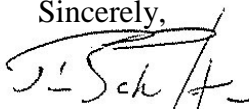
We will continue work with agencies and follow up on missing quarterly reports; we have received all reports needed for accurate fiscal year end reporting.

Person responsible: Barb Ruckheim  
Estimated completion date: March 2012

In addition to updating accounts receivable policies, we have provided training to agencies on proper GAAP reporting of accounts receivable as well as general risk assessment practices. We will continue to offer these resources to agencies and follow up on issues as they are identified. We have also completed a detailed risk assessment on the reporting of accounts receivable as it relates to the state's financial statements, which is monitored and updated annually.

Thank you for your recommendations. We value your audit work and the improvements it generates further improve our financial management practices.

Sincerely,



Jim Schowalter  
Commissioner

# MINNESOTA • REVENUE

October 24, 2011

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
658 Cedar Street  
140 Centennial Office Building  
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

This letter contains our responses to the Office of Legislative Auditor's findings and recommendations contained in a draft report we received on October 18, 2011. The audit covers its evaluation of the accounts receivable and collection processes for the State of Minnesota for the period July 1, 2008 through December 31, 2010.

As it pertains to the Minnesota Department of Revenue, the audit report focuses on two findings, each of which we address below under "agency response."

**Finding (5):** The Department of Revenue did not monitor or segregate incompatible duties for access to two subsystems. The department did not monitor access for the 422 users of its subsystem for the collection of other state agencies. As a result, 44 users had the ability to create and approve certain adjustments to outstanding debt without any independent review or approval. In addition, the department could not provide any documentation, such as an audit trail, to support these online approvals.

The department also did not limit access to its subsystem for taxpayer accounts receivable. Employees could process adjustments without review and approval of that adjustment. Although the department limited the number of employees with adjustment access and required approval for certain types of adjustments, employees with this access could add an adjustment and approve their own adjustment without the approval or review of a different employee.

**Recommendation:** *The agencies cited should eliminate incompatible access to their subsystems, develop and document mitigating controls, and monitor the controls to provide independent scrutiny and review of the receivable and adjustment activity.*

## **Agency Response Part a:**

This response addresses the first part of Finding 5 regarding monitored access. There are limitations in our accounting system (MATS) for other agency debts. Although users were unable to issue a refund without approval from another user, the system did not accurately provide the audit trail on the user that approved the adjustment.

The department is in the process of moving other agency debt into our new integrated tax system (GenTax). Other agency debt will convert to GenTax on December 12, 2011. MATS will no longer be used to manage the accounting of other agency debts. GenTax provides a clear audit trail which includes viewing all employee accesses to an account including creating and approving adjustments.

**Person responsible for resolving the finding:** Robyn Dwyer, Collection Division Acting Director

**Expected resolution date:** December 12, 2011 when MATS is decommissioned and we transition into GenTax.

**Agency Response Part b:**

This response addresses the part of Finding 5 dealing with the department not limiting access to its subsystem for taxpayer accounts receivable. Employees could process adjustments without review and approval of that adjustment. Although the department limited the number of employees with adjustment access and required approval for certain types of adjustments, employees with this access could add an adjustment and approve their own adjustment without the approval or review of a different employee.

1. Collectors are granted the security to process abatement adjustments without approval up to a certain dollar amount based on their classification (i.e. RCO2/RCO3 has authority < \$5,000, RCO4 has authority <\$25,000, RCO5 has authority < \$100,000). The adjustments are made to correct an account or to grant an abatement of penalty. The collectors deal with all tax types and have been granted the authority based on their position. Any refunds due to an adjustment require approval. Unique adjustment authority, such as compromise or charge off, is only given to certain collectors that specialize in those areas. Removing this functionality would prevent us from being able to conduct the essential functions of the division.
2. In order to mitigate risk of error or fraud, the Collection Division has developed and documented internal procedures for division employees to follow. The Collection Division has a policy set in place for collection management to review refund approvals, system activity, and security access of their employees. The manager documents their findings. Controls are in place to ensure adherence.
3. The Collection Division also has a Quality Program to ensure that collectors are taking the appropriate actions on cases. Cases are independently and randomly selected for review. This serves as an additional objective review of collector actions.
4. There is a monthly adjustment report that is automatically generated from GenTax on the first of the month. The report is sent directly to the division director for review and to spot check specific cases.

**Person responsible for resolving the finding:** Robyn Dwyer, Collection Division Acting Director

**Expected resolution date:** On-going

**Finding (6):** The Department of Revenue did not establish sufficient internal controls to monitor employee access to its network and business systems to ensure that it removed or modified users' access immediately upon termination of employment or changes in job duties. . . .

**Recommendation:** *The Department of Revenue should promptly delete system access for terminated employees and better monitor employee access to their business systems to ensure that employees only have the access needed to perform their jobs.*

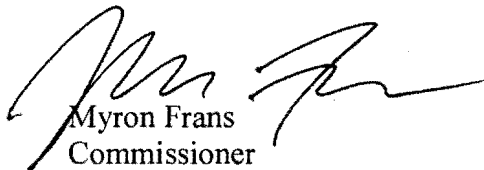
**Agency Response:**

We agree with the findings. CACS will be decommissioned and we will promptly delete system access for terminated employees and better monitor employee access as we transition into GenTax.

**Person responsible for resolving the finding:** Robyn Dwyer, Collection Division Acting Director

**Expected resolution date:** December 12, 2011, when CACS is decommissioned and we transition into GenTax.

Sincerely,

  
Myron Frans  
Commissioner



October 26, 2011

Mr. James Nobles  
Legislative Auditor  
First Floor, Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit finding and recommendation related to the statewide accounts receivable audit encompassing the period from July 1, 2008 through December 31, 2010.

**Audit Finding 1: The Department of Employment and Economic Development did not report all of its accounts receivables on the December 2010 quarterly report. It did not report accounts receivable information related to warrant printing, workforce center partnerships, and services for the blind, resulting in an understatement of receivables; the department estimated the June 2011 outstanding receivables for these areas to be about \$412,000.**

*Recommendation:*

- *The department should submit accurate and timely accounts receivable information.*

*Response:*

The department agrees with the finding and the recommendation. The department properly reported accounts receivable for its largest program which is unemployment insurance. Other receivables have not been reported in the past. DEED will develop a process to begin reporting these activities for the December 2011 quarterly report. Cindy Farrell, Chief Financial Officer, will oversee implementation of this recommendation.

If you need further information or have additional questions you may contact Cindy Farrell at 651-259-7085 or [Cindy.Farrell@state.mn.us](mailto:Cindy.Farrell@state.mn.us).

Sincerely,

  
Mark Phillips  
Commissioner







October 19, 2011

James R. Nobles, Legislative Auditor  
658 Cedar Street  
140 Centennial Office Building  
St. Paul, MN 55155

Dear Mr. Nobles:

I would like to thank you and David Poliseno, Audit Manager, for the work done by your team on the internal control and compliance audit of accounts receivable and collection processes for the State of Minnesota and Office of Enterprise Technology specifically for the period July 1, 2008 through December 31, 2010. We understand the importance of financial and business process control and compliance and are committed to reporting complete, timely, and accurate accounts receivable information to the Minnesota Management and Budget.

With this letter, we are delivering our formal response to your finding that relates to Office of Enterprise Technology that was identified in Finding 1, Office of Enterprise Technology bullet on Page 10.

**Finding 1 – The Office of Enterprise Technology did not properly identify and separately report interagency accounts receivable in its December 31, 2010, quarterly accounts receivable report submitted to the department. The office reported approximately \$3.9 million of accounts receivable for the quarter, but did not segregate out nearly \$2.7 million in interagency accounts receivable.**

**Response** – The Office of Enterprise Technology (OET) agrees with the finding and understands the need for strong and effective internal controls related to proper accounts receivable documentation and adherence to accounts receivable reporting requirements. This finding has been resolved. Revised, restated reports were submitted to Minnesota Management and Budget in May 2011 for FY2011, 1<sup>st</sup> and 2<sup>nd</sup> Quarters to properly identify and separately report interagency accounts receivable. The inter/Intra agency receivables column of the Quarterly AR Reporting to MMB form should have been completed since OET had interagency AR activity. The new electronic submission process, combined with new staff being unfamiliar with the form and internal review process, contributed to the form being improperly completed and the internal review process being bypassed. This process has been corrected and the new staff trained on the process for completion of the form and the internal review/control.

Person responsible: Julie Freeman, Financial Management Director  
Status of Finding: Complete May 2011

If you have questions or need additional information about OET's response, please feel free to contact me or Julie Freeman (Financial Management Director).

Sincerely,

Tu Tong  
CFO

cc: David Poliseno, OLA Audit Manager  
Tu Tong  
Julie Freeman





## Minnesota Department of **Human Services**

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October 26, 2011

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Department of Human Services' response to the findings and recommendations included in the draft audit report on the state's accounts receivable and collections processes for the period July 1, 2008, through December 31, 2010. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

The Department of Human Services' policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred.

If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

*/s/ Lucinda E. Jesson*

Lucinda E. Jesson  
Commissioner

Enclosure

**Department of Human Services  
Response to the Legislative Audit Report on the  
Receivables and Collections Process for the State of Minnesota  
For the Period July 1, 2008, through December 31, 2010**

**Audit Finding #5**

The Department of Human Services did not require approval of adjustments to the amount of principal and/or interest owed, including write-offs. The department also did not review adjustments, totaling \$774 million, for child support obligations processed within the subsystem used to manage child support cases. The subsystem required county workers to process balance adjustments and to enter related comments. However, the system did not require approval, so the adjustment automatically processed. The department did not oversee or review the county workers' adjustments and allowed each county to ensure adjustments were reviewed and approved.

**Audit Recommendation #5**

- *The agencies cited should eliminate incompatible access to their subsystems, develop and document mitigating controls, and monitor the controls to provide independent scrutiny and review of the receivable and adjustment activity.*

**Agency Response to Audit Recommendation #5**

The department agrees with the recommendation. The Minnesota child support program will review and update our policies and procedures relating to balance adjustments to include county supervisor review, approval, and documentation of balance adjustments. We will also ensure all balance adjustments are properly recorded and can be reviewed and inspected at a future time by reviewing the financial subsystem.

**Person Responsible:** Jeff Jorgenson, Direct Services Manager, Child Support Enforcement  
**Estimated Completion Date:** May 31, 2012

MINNESOTA JUDICIAL BRANCH  
MINNESOTA JUDICIAL CENTER  
25 REV. DR. MARTIN LUTHER KING JR. BLVD.  
SAINT PAUL, MINNESOTA 55155

SUE K. DOSAL  
STATE COURT ADMINISTRATOR

(651) 296-2474  
Fax (651) 215-6004

November 4, 2011

Mr. James R. Nobles  
Minnesota Legislative Auditor  
140 Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Auditor Nobles:

I write in response to the accounts receivable and collection process audit you recently completed for the State of Minnesota for the period July 1, 2008, through December 31, 2010.

We note in your report conclusion that the State Court Administrator's Office "*generally had adequate internal controls to ensure [it] pursued the collection of accounts receivable and submitted past due accounts receivable to the Department of Revenue's Collection Division, as required by law*" and "*for the items tested . . . generally complied with significant finance-related legal requirements.*"

Regarding the finding, it must be noted that court's accounts receivable differ significantly from traditional receivables. A sizable portion is for criminal fines and restitution on court cases in which the defendant is incarcerated – cases that historically are very difficult to collect. Additionally, sentences in many of these cases give defendants, who may be indigent, the alternative to perform community service in lieu of payment of a fine. Whether that alternative is exercised is not known until disposition of the case. Any effort to estimate judicial branch receivables must attempt to exclude such cases from the total to ensure the receivables are not overstated. The State Court Administrator's Office is working with its subsystem vendor and anticipates having the ability to generate reports on its accounts receivable by fall 2012, which is only the first step in what will be a complex analysis needed to produce meaningful receivables estimates. While the recommendation you provided has been given careful attention and appropriate action is underway, we do want you to be aware of the unique issues surrounding future judicial branch receivables reporting.

Sincerely yours,



Sue K. Dosal  
State Court Administrator

cc: The Honorable Chief Justice Lorie Skjerven Gildea, Chair Minnesota Judicial Council

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**Finding 7: The State Court Administrator's Office was not able to identify, account for, and report the amount of outstanding receivables to the Department of Management and Budget.**

*Response:*

While the State Court Administrator's Office acknowledges that currently it is unable to determine an accounts receivable balance, it has been working with its subsystem's vendor to generate accounts receivable reports and anticipates these reports will be available in fall 2012. Once available, extensive analysis of the report data will be required since a significant share of the court's accounts receivable are uncollectible and must be excluded from the overall totals to avoid an overstatement of collectible receivables:

- Unlike traditional receivables, a sizable portion of the court's receivables are for criminal fines and restitution on court cases that also include incarceration. These cases are historically difficult to collect.
- In addition, certain fine balances assessed in the subsystem are not considered receivables until further court action occurs. For example, payable misdemeanors and cases with interim dispositions show a fine balance due, but collections cannot occur until a final disposition is entered.
- Community work service is often an option to satisfy the court fine in lieu of payment.
- Last, not all receivables are due to the state and this analysis must account for receivables that are due to local units of government and crime victims for cases in which payment of restitution is ordered.

Even with reports from the subsystem vendor in-hand, it is going to take some time to develop a model that accounts for all of the unique elements that comprise the court's accounts receivables and generate best estimates. The State Court Administrator's Office is committed to complying with the Department of Management and Budget's quarterly accounts receivable reporting requirements but will be able to comply only after this analysis is complete.

In the meantime, the Judicial Branch will continue to initiate collection actions for all eligible, delinquent debt. In 2009, the Judicial Branch, with support from the Legislature, initiated a significant overhaul of its collection program that included legislative changes to streamline complex fine and fee splits and resulted in a systematic and thorough approach to collections:

- In 2010, the Judicial Branch introduced standardized practices for collecting all court debt with implementation of State Court Administrator Finance Procedure 209(b) *Collection of Past Due Accounts*.
- A Service Level Agreement with the Minnesota Department of Revenue (MDOR) took effect on July 1, 2010, for the collection of delinquent court debt. Prior to the agreement with MDOR, the Judicial Branch utilized a private vendor to collect delinquent court debt.
- The court's subsystems were automated to identify all cases eligible for collections, refer them to MDOR, and receipt payments to individual court cases.

With these changes, collection efforts are initiated at the earliest opportunity so that the chances of collection are increased and the state, local governments and crime victims receive their much needed revenue as quickly as possible.

*Persons responsible for resolving:* Dawn Torgerson, Chief Financial Officer

*Estimated implementation date:* December, 2012. This date is dependent upon the subsystem vendor delivering reliable reports on time (scheduled for September 2012), which is only the first step in what will be a complex analysis needed to produce meaningful receivables estimates. The State Court Administrator's Office will update the Office of Legislative Auditor regarding its progress if this date cannot be met.







## Minnesota Pollution Control Agency

520 Lafayette Road North | St. Paul, Minnesota 55155-4194 | 651-296-6300

800-657-3864 | 651-282-5332 TTY | [www.pca.state.mn.us](http://www.pca.state.mn.us) | Equal Opportunity Employer

November 3, 2011

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Office Building, Room 140  
658 Cedar Street  
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the Office of Legislative Auditor's (OLA) findings and recommendations resulting from a recent audit of the accounts receivable and collection processes for the State of Minnesota, of which the Minnesota Pollution Control Agency (MPCA) was a participant. The MPCA takes its fiscal responsibilities seriously. As such, the MPCA appreciates the professional review conducted by OLA staff.

The MPCA has written a response to each audit finding and recommendation.

**Finding #2: The Pollution Control Agency did not design, implement, and monitor fundamental internal controls over its receipts process.**

**OLA Recommendation:** *The MPCA should:*

- *Safeguard its receipts by preparing a daily log of receipts collected and restrictively endorsing checks immediately upon receipt.*
- *Ensure that it protects non-public data from unauthorized disclosure.*
- *Segregate employees' incompatible duties or develop mitigating controls.*
- *Complete the receipt reconciliations required by state policy.*

**Agency response:** The MPCA generally agrees with the OLA's recommendations. However, the Agency further offers that, as stated in the Report, a risk assessment was done on all agency receipts. The Agency focused first on reducing the risks regarding its permitting application and annual fees, since these fees are approximately 92 percent of total receipts in any Fiscal Year. The Agency believes that the system, which is nearly complete, designed and implemented for these receipts, will also be sufficient to manage the remaining receipts. The Agency has, in parallel, initiated work on this recommendation as it pertains to the specific receipts discussed in the report and commits to:

- Accelerate the redesign of its mail operations such that receipts are not viewed or handled by staff prior to processing for daily deposit.
- Process checks in a manner that ensures non-public data is secure and not disclosed.
- Take full advantage of the security capabilities built into its electronic systems to separate incompatible duties within fiscal processes, and where necessary develop and implement mitigating controls.
- Implement reconciliation routines that fully comply with state financial management policy, and ensure those tasks are completed on a regular basis within the fiscal section.

**Implementation Date:** December 31, 2011

**Responsible Manager:** Myrna Halbach, Assistant Chief Financial Officer

**Finding #3: The Pollution Control Agency did not properly record, document, and monitor its accounts receivables.**

**OLA Recommendation:** *The MPCA should design and implement internal controls to ensure it accurately accounts for, adequately monitors, and accurately reports its receivables.*

**Agency response:** The MPCA generally agrees with the OLA's recommendations. The Agency commits to a redesign of fiscal processes that brings the accountability to its Fiscal Section. Under such a plan, the required internal controls will be built into business processes and training sessions under the direction and control of the MPCA's Assistant CFO, Finance Manager, and Accounting Unit supervisor.

**Implementation Date:** December 31, 2011

**Responsible Manager:** Lyle Mueller, Finance Manager

**Finding #4: The Pollution Control Agency did not properly manage or actively pursue collection of some outstanding receivables.**

**OLA Recommendation:** *The MPCA should revise its receivable management plan to ensure it complies with the state policy. The plan should include:*

- *Following up on outstanding receivables;*
- *Charging interest to past due accounts;*
- *Referring past due accounts for collection; and*
- *Writing-off uncollectible accounts.*

*The MPCA should comply with its revised receivable management plan.*

**Agency response:** The MPCA agrees with the recommendation. The Agency commits to updating its receivable management plan. As the responsibility for accounts receivable is centralized, the accountability for managing receivables according to the plan will fall to a smaller number of staff in the MPCA's Fiscal Section that know, understand, and follow the provisions of the management plan.

**Implementation Date:** March 31, 2012

**Responsible Manager:** Lyle Mueller, Finance Manager

**Finding #5: Three agencies allowed employees to have incompatible access to agency subsystems without establishing mitigating controls.**

**OLA Recommendation:** *The agencies cited should eliminate incompatible access to their subsystems, develop and document mitigating controls, and monitor the controls to provide independent scrutiny and review of the receivable and adjustment activity.*

**Agency response:** The MPCA generally agrees with the OLA's recommendation above. The MPCA commits to bringing all receipt processing into Billing Administration and Receipting, a subsystem built by the Agency over a number of years with system controls. This effort will end the use of several smaller fiscal subsystems within the Agency and eliminate the need to address the control weaknesses inherent in these smaller systems. Adequate security controls are built into Billing Administration and Receipting, and these controls are reviewed and tested regularly.

**Implementation Date:** November 30, 2011

**Responsible Manager:** Lyle Mueller, Finance Manager



**Finding #6: The Department of Revenue and the Pollution Control Agency allowed employees to have unnecessary access to their subsystems.**

**OLA Recommendation:** *The Pollution Control Agency should promptly delete system access for terminated employees and better monitor employee access to their business systems to ensure that employees only have the access needed to perform their jobs.*

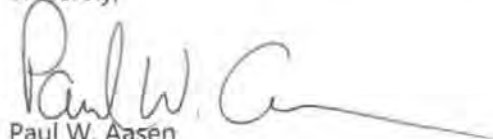
**Agency response:** The MPCA agrees with the OLA's recommendation. The MPCA commits to reviewing these subsystems with the appropriate managers for non-fiscal incompatibilities within its enforcement database, in addition to eliminating fiscal incompatibilities.

**Implementation Date:** November 30, 2011

**Responsible Manager:** Myrna Halbach, Assistant Chief Financial Officer

Thank you again for the opportunity to respond. If you have any questions, please feel free to contact Assistant Chief Financial Officer Myrna Halbach at 651-757-2403, [Myrna.Halbach@state.mn.us](mailto:Myrna.Halbach@state.mn.us), or Finance Manager Lyle Mueller at 651-757-2591, [Lyle.Mueller@state.mn.us](mailto:Lyle.Mueller@state.mn.us).

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul W. Aasen", with a long, sweeping horizontal line extending to the right.

Paul W. Aasen  
Commissioner